EUROFER
The European Steel Association

ECONOMIC REPORT

ECONOMIC AND STEEL MARKET OUTLOOK 2019-2020

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INTRODUCTION

Final figures for 2018 show that the EU28 steel market grew by 3.3%. The preliminary safeguard measures could not prevent third country imports from rising by 12.6% and, as a consequence, local steel producers being flattened by deflected and cut-price steel products from outside the EU.

Meanwhile, the relaxation of the final safeguard measures – with an enlargement of 5% in February this year with another upwards revision of 5% scheduled for July – is completely out of step with the anticipated decline of the EU steel market in 2019. As such, the 10% increase in import quota allowed in the final safeguard measures risks squeezing the EU steel sector, as it will be exposed to rising import pressure in a depressed market.

EU STEEL MARKET OVERVIEW

In the final quarter of 2018 domestic deliveries from EU mills to the EU market decreased by 2.1% compared with the same period of 2017. This was the result of third country imports growing by 16.3% year-on-year within a context of flattening steel demand growth over that timeframe. Imports amounted to 9.6 million tonnes and accounted for 24.7% of EU steel demand.

Over the whole year 2018 apparent steel consumption rose by 3.3%. Third country imports grew by 12.6% which contrasts sharply with a 1.7% rise in domestic deliveries. The preliminary safeguard measures imposed by the EU Commission in July 2018 were supportive to limiting import volumes in the second half of the year compared with the extraordinary high import volumes that landed in the EU in the first half. However, the sharp year-on-year rise in the second half of the year also illustrates that the threat of deflection of tonnage due to the Section 232 tariffs on steel imports imposed by the US and market distortions due to the global overcapacity and other countries' protectionist measures is still very much alive.

The outlook for EU steel demand is subdued. The base case scenario for the development of final steel use shows only marginal growth in 2019 and 2020. Given the uncertainty that currently surrounds the EU steel market in terms of demand and supply fundamentals, steel inventories will be managed with care. With reportedly relatively high inventories in the steel distribution chain at the start of 2019, apparent steel consumption is forecast to fall by 0.4% over the whole year 2019. Apparent steel consumption may grow by 1.3% in 2020.

With only a few months of customs data available it is impossible to already see a clear pattern in trade flows. Nevertheless, with imports remaining at elevated levels and exports on a downward trend in early 2019, the justified conclusion seems to be that there is no evidence of an easing in competitive pressures in international steel markets. With global steel overcapacity still estimated to be 550 million tonnes by the OECD, it is of the utmost importance that individual countries and regions dismantle market-distorting subsidies and other government support measures. Additionally, they must share data and information on the process of capacity reduction in order to facilitate the process of cutting excess capacity where it is needed most and avoid a further proliferation of trade distortions.

EU STEEL-USING SECTORS

Total production growth in EU steel-using sectors cooled further in the fourth quarter of 2018. The strongest slowdown was registered in the automotive sector, followed by the mechanical engineering sector, the steel tube industry and the metal goods industry. Meanwhile, production activity in the construction sector did not witness much of a growth deceleration, but continued to expand at a healthy pace.

Prospects for production activity in EU steel-using sectors in 2019 and 2020 are rather weak, with external and internal headwinds undermining the outlook. While private consumption and government expenditure will continue to grow, both exports and investment are at risk of falling behind expectations in case of a hard Brexit and an escalation in global protectionist measures. The significant degree of uncertainty the corporate sector is facing has clearly the potential to lead to a negative confidence shock and investment decisions being postponed until more clarity emerges on trade conditions and Brexit. On the other hand, a well-managed Brexit and settlement of US-EU trade disputes would pose an upside risk.

Output in the EU's steel-using sectors is forecast to grow by 0.9% in 2019 and by 1.1% in 2020.

EU ECONOMIC CONTEXT

Slowing global economic momentum and the related deteriorating contribution from net trade has been the primary reason for the weakening of the EU economy in 2018. The slowdown was led by the industrial sector, bearing the brunt of global headwinds. Export orders gradually weakened, dragging on confidence.

Available forward-looking indicators and hard data seem to justify the conclusion that the weakness in industry will at least persist over the first half of 2019. The base-case scenario for economic growth in the EU suggests that – nevertheless fairly solid – domestic economic fundamentals could offset the weakness in trade. However, investment is particularly at risk of falling behind expectations if rising protectionism and a worsening global economic environment lead to a further deterioration in business confidence.

EUROFER's second quarter 2019 forecast for EU GDP growth is 1.5% in both 2019 and 2020.

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GDP GROWTH

The weakness seen in the EU economy in the third quarter of 2018 extended into the final quarter of the year. GDP growth remained at 0.2% quarter-on-quarter in the Euro area and at 0.3% in the EU.

Underlying data on the main expenditure components in the fourth quarter of 2018 show that the contribution of exports to the variation in GDP improved somewhat compared with the third quarter, whereas the contribution of investment remained weak and changes in inventories had a negative impact.

Despite economic momentum gradually losing strength, GDP in the EU28 still rose by 1.9% over the whole year 2018. Economic activity in 2018 was primarily supported by domestic demand while exports were increasingly affected by the deterioration in global trade. The growth deceleration was much more pronounced for industrial activity, also because of temporary factors such as the emission standard disruption in the automotive sector and its supply chain.

This led to a disappointing performance in the German economy and, in particular, in its export-reliant industrial sector. Italy was the only eurozone economy slipping into recession in the second half of 2018. GDP contracted by 0.1% quarter-on-quarter in both the third and fourth quarter of last year. Domestic demand, rather than exports, was the main reason for Italy's economic weakness. In France, economic growth held relatively steady over the course of 2018, in spite of the 'gilets jaunes' protests. The Spanish economy was the best performer among the large eurozone countries. Meanwhile, the UK economy endured a soft patch, reflecting the recent slowdown in world trade and ongoing Brexit-related uncertainty.

Eurostat's preliminary flash estimate for GDP growth over the first quarter of 2019 signals that economic activity was stronger than expected in the first quarter: GDP growth is pencilled in at 0.5% quarter-on-quarter. While Italy exited recession, growth in France held steady and strengthened in Spain; however, data for Germany are estimated. Also favourable weather effects may have played a role.

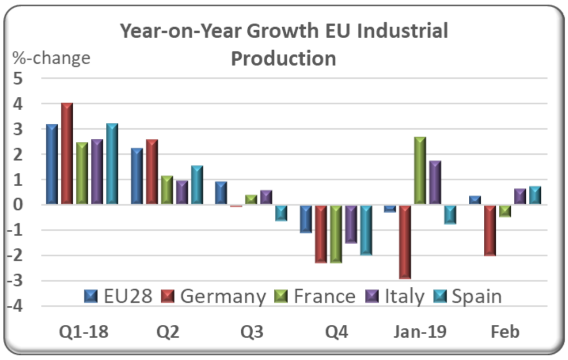
CONFIDENCE INDICATORS

Soft forward looking indicators for the EU signal that the unexpected pick-up in first quarter economic growth might not be sustained over the remainder of 2019. The drop in confidence registered in April suggests that economic activity may well decelerate again in the second quarter.

The European Commission's business and consumer survey for April shows a further marked decrease in the Economic Sentiment Indicator (ESI), following rather sharp monthly declines since September 2018. The deterioration of confidence resulted from markedly lower confidence in industry, retail trade, construction and among consumers, whereas sentiment was broadly stable in the service sector. Industrial confidence fell in April to the lowest level since October 2013.

Similarly, the IHS Markit Eurozone Composite Output Index fell in April to the third-lowest level since November 2014, only marginally above the recent low registered in January. Industry managers' views on manufacturing output fell for a third month in a row and the headline manufacturing PMI remained below 50, at its second-lowest level since April 2013, thereby offsetting still slight growth in services. The downturn in manufacturing activity was particularly evident in Germany and France.

Weakening confidence in the EU in general and in the industrial sector in particular are largely explained by uncertainty about Brexit and increasing concerns about the negative impact of trade frictions on doing business abroad within the context of slowing global growth and, as a consequence, deteriorating international trade. Meanwhile, concerns about migration and



integration are fuelling Eurosceptic sentiments and pose a threat for political stability within the common market. Hard data for industrial production (excluding construction) in the fourth quarter of 2018 show an overall negative trend in the EU and a more pronounced contraction in activity in the large eurozone economies. Initial data for 2019 reveal a continuation of the downward trend in Germany and a recovery in year-on-year industrial production growth in Italy. It looks therefore likely that weak economic momentum persisted in the first quarter of 2019, due to global headwinds weighing on trade and the manufacturing sector.

ECONOMIC FUNDAMENTALS

The trade outlook will remain uncertain for EU exporters. The period of above-trend global growth appears to be over. Financial and monetary conditions have tightened and market volatility has risen. Weaker growth is evident in the EU, China and emerging markets that depend heavily on external finance. At the start of 2019 global trade was growing at the slowest pace in almost a decade. While there is some evidence - such as signs of stabilisation of commodity prices and transport activity and improving trade indices for China - that the decline in global trade could be winding up, trade prospects for this year remain relatively gloomy. Any further progress made in the ongoing trade negotiations between the US and China would offer some hope for improvement of global trade conditions.

However, there is evidence that trade policy actions of the Trump administration will again focus more on the EU. The US recently imposed tariffs on $11 billion of EU exports to the US – including airplanes, cheese, wine and motorcycles - because of (disputed) European aid to Airbus and have led to the announcement of retaliatory EU tariffs against the US. It will fuel tensions in the lingering US-EU trade conflict and increase

Economic indicators

Year-on-year change in %

EUROFER Forecast	2017	2018	2019 (f)	2020 (f)
GDP	2.5	1.9	1.5	1.5
Private consumption	2.0	1.6	1.6	1.6
Government consumption	1.0	1.0	1.5	1.2
Investment	3.4	2.9	1.7	1.7
Investment in mach. equip.	3.7	2.8	1.6	1.8
Investment in construction	4.1	3.0	2.4	2.0
Exports	5.6	2.9	2.9	3.4
Imports	4.8	2.9	3.5	3.8
Unemployment rate	8.2	7.5	7.1	6.9
Inflation	1.6	1.8	1.5	1.7
Industrial production	3.3	1.7	0.8	1.8

(f) = forecast

the risk of US tariffs on cars and automotive parts exports from the EU.

The weakened euro should be a supportive factor over the coming quarters, especially if recent signs of a stabilisation of international trade conditions become more fixed and long-term.

This implies that the EU economy will remain largely dependent on domestic demand. The resilience of the domestic economy seen in 2018 looks set to continue.

The labour market recovery is expected to continue, albeit at a more moderate pace. The number of people employed in the EU28 rose by 1.3% over the whole year 2018. The EU28 unemployment rate stood at 6.4% in March 2019, the lowest rate recorded since the start of the monthly unemployment series in January 2000. Tightening labour markets have started to drive a pick-up in salaries. In combination with more moderate headline inflation and rather steady levels of consumer sentiment this should boost real incomes and provide support to private consumption.

The base-case investment scenario suggests continued, but moderating, growth in capital expenditure, on a par with easing capacity constraints and order backlogs alongside weakening profits in EU industry. However, prospects for investment are obscured by rising risks posed by continued uncertainty because of global protectionism and Brexit. The delay of the withdrawal of the United Kingdom from the EU until 31 October granted by the European Council could mean that Brexit uncertainty could continue for most of 2019. Ongoing uncertainty and slowing manufacturing activity also present a risk of negative spill-over effects on the services sector. This could exacerbate the weakening investment trend.

This risk has been acknowledged by the European Central Bank (ECB). While the ECB has put an end to its net asset purchases at the end of 2018, it has announced a new round of targeted long-tern refinancing operations (TLTROs) with the aim of preserving favourable bank lending conditions and thereby stimulate investment.

GROWTH OUTLOOK FOR 2019-2020

Slowing global economic momentum and the related deteriorating contribution from net trade has been the primary reason for the weakening of the EU economy in 2018. The slowdown was led by the industrial sector, bearing the brunt of global headwinds. Export orders gradually weakened, dragging on confidence.

Available forward-looking indicators and hard data seem to justify the conclusion that the weakness in industry will at least persist over the first half of 2019. The base-case scenario for economic growth in the EU suggests that - nevertheless fairly solid - domestic economic fundamentals could offset the weakness in trade. However, investment is particularly at risk of falling behind expectations if rising protectionism and a worsening global economic environment lead to a further deterioration in business confidence.

EUROFER’s second quarter 2019 forecast for EU GDP growth is 1.5% in both 2019 and 2020.

THE EU STEEL MARKET: FINAL USE

OUTLOOK FOR STEEL-USING SECTORS

Production activity growth in EU steel-using sectors weakened sharply in the fourth quarter of 2018, particularly as a result of the marked drop in activity the automotive sector. The end-of-year weakness increased the likelihood that the slowdown in growth will persist into 2019 and 2020.

CONSTRUCTION INDUSTRY

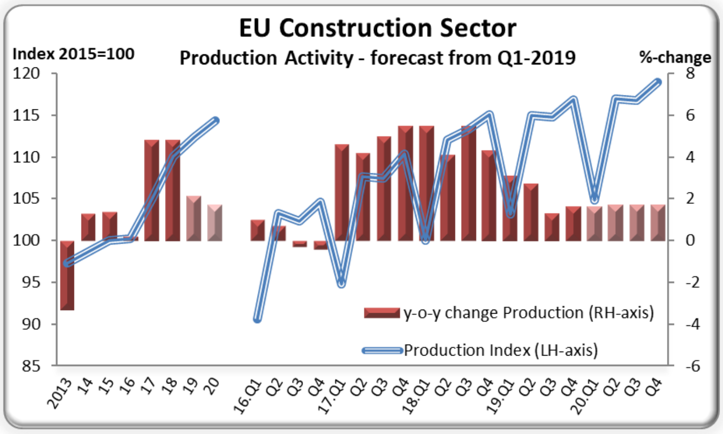
The EU construction sector registered robust growth in the growth in the fourth quarter of 2018, although the rate of expansion was less vigorous than in the previous quarters of 2018.

Construction industry output

EU production activity rose by 4.3% year-on-year in the fourth quarter of 2018, bringing total growth over the whole year 2018 to 4.8%. This growth rate is equal to the pace of expansion registered in 2017 . The EU construction industry was one of best performing steel using sectors over the past two years.

Construction industry activity in the fourth quarter of 2018

In the fourth quarter of 2018, construction output rose in almost all reporting countries; only in Sweden did production activity fall compared with the same period of 2017. Output growth was particularly strong in Central Europe; Poland and Hungary registered double-digit rates of expansion. Activity rose at a solid pace in most western European countries, despite a mild moderation in the year-on-year growth rate in the final quarter, in comparison with the first three quarters of the year.



Meanwhile, construction activity in the UK grew only slightly in the fourth quarter of 2018, reflecting falling order intakes and sentiment increasingly coming under pressure on a par with economic indicators and heightened political and economic risks.

In Western Europe, solid demand for residential and non-residential buildings remained the most important growth driver of production activity in the construction sector. The residential property market in most western European countries has staged a rebound over the past few years. In some countries there are even signs of overheating; the existing tightness in supply of affordable housing has been exacerbated by the migrant inflows. The sector itself is facing capacity issues, not only with regards to production capacities but even more so with respect to the availability of skilled labour. Moreover, in several countries the public authorities have long backlogs in granting building permits.

Non-residential construction demand has benefitted from rising private and public investment. The strong performance of the housing sector and the resulting increase in the number of new dwellings and the upgrading of the existing housing stock has led to the development of new retail and leisure projects. Instead, the general economic rebound has driven demand from companies in industry and services for storage and logistic facilities, offices, commercial and industrial buildings. For similar reasons, publicly funded non-residential investment in healthcare, education and other community services has also risen.

In the Central European countries, the most important driver of construction activity growth is infrastructure demand. The availability of EU funding, as well as the improving economic performance of the main economies in the region and as a consequence larger domestic budgets for infrastructure work, has supported new civil engineering projects and the renovation and modernisation of existing infrastructure. The upsurge in residential and non-residential activity is also gaining momentum.

Construction industry forecast 2019-2020

The outlook for the construction industry is relatively positive, despite the fact that this sector also will feel the impact of weakening economic fundamentals in the EU. As a consequence, growth in construction investment is expected to moderate in 2019 and 2020. Nevertheless, taking into account that construction companies in the EU have remained rather positive in their assessment of current and expected workloads, the slowdown in construction activity growth will be gradual and rather mild. Particularly in 2019, significant order backlogs will guarantee healthy level of capacity utilisation in the sector.

Demand for residential projects will continue to be strong, although the boom conditions as seen in several countries in the recent past will come to an end. Housing demand is supported by relatively high levels of consumer confidence, rising wages and still low cost of financing. Demand for both new work and renovation and modernisation activities will continue to grow. The non-residential sector is at risk of a more pronounced slowdown in private construction investment, reflecting higher levels of business uncertainty in general and rising concerns on the performance of the export sector in the EU in particular. The unknown impact of Brexit and the potentially damaging effect of global protectionism are the major factors influencing corporate investment decisions.

Public construction investment in non-residential and civil engineering projects will remain a growth driver over the forecast period. Several national governments have launched construction programmes geared at improving the country’s transport, energy and digital infrastructure. Examples are the ‘Grand Paris’ scheme in France, railway maintenance, electrification and development programmes in Italy as well as the completion of projects recently started or underway in Central Europe. A general trend across the EU is the support for projects aimed at enhancing the energy efficiency of residential and non-residential buildings.

Meanwhile, supply constraints will remain an issue for the time being. This implies that potential production growth is limited by the tightness of production capacity in the sector as well as by serious labour shortages.

Total EU output is forecast to rise by 2.1% in 2019 and by 1.7% in 2020.

AUTOMOTIVE INDUSTRY

Total activity in the EU automotive sector fell by more than 5% year-on-year in the final quarter of 2018 due to the disruptive impact of the introduction of the new WLTP emissions test on production.

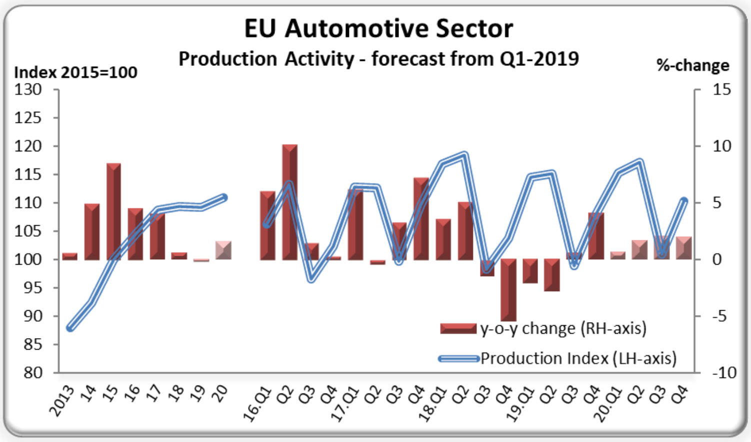
EU passenger car and commercial vehicle demand

EU passenger car registrations began 2019 in reverse, continuing the declining trend in sales seen in the last four months of 2018. Sales fell by 3.3% year-on-year over the first quarter of 2019. Particularly the Spanish, Italian and UK car market registered a marked contraction, while sales were more or less stable in Germany and France.

Much in contrast, registrations of commercial vehicles rose by 5.1% year-on-year over the first quarter of 2019. All large EU markets saw demand for commercial vehicles increase over this period. While every segment of the EU commercial vehicle market performed satisfactory, demand for medium and heavy commercial vehicles showed the strongest year-on-year growth.

Vehicle exports to third countries remained under pressure at the start of 2019 due to weakening demand in key export destinations such as the US, Turkey, China and several of the other Asian markets.

Automotive sector activity in the fourth quarter of 2018



Production activity in the EU automotive industry fell by 5.4% year-on-year in the fourth quarter of 2018. While the first half of the year had registered almost 4.5% growth compared with the same period of 2017, the second half of 2018 was heavily influenced by the transition in the automotive sector to new emission testing procedures. This had a deeply negative effect on production levels in the third and particularly in the fourth quarter of last year as the sector had to clear stocks of pre-WLTP vehicles. The effect was particularly felt along the automotive supply chain in almost all EU countries with automotive production plants. At the same time, demand for passenger cars in the EU also weakened significantly, as the boom in sale prior to the WLTP emissions test procedure sharply reduced sales in the second half of the year.

On balance, total automotive production in the EU grew by 0.6% in 2018.

Automotive industry forecast 2019-2020

Having stabilised in 2018, passenger car demand in the EU is expected to register only modest growth in 2019. In principle, economic fundamentals such as rising real disposable incomes and continued labour market strength should remain supportive to solid levels of vehicle demand. However, European car markets have become saturated after several years of rapid expansion and the replacement demand that previously had supported the market is waning.

Moreover, buyer confidence is increasingly affected by uncertainty about the future of diesel-powered cars. A possible legislation banning this powertrain type could lead to a collapse in residual values. At the same, buyers are not rushing to buy alternatively-powered cars. Several major obstacles, such as their affordability and the lack of widespread charging infrastructure, is delaying – for the time being – the uptake of electric and hybrid cars.

New model launches in 2020, including several electric vehicle models from the major European OEMs, are expected to have a mildly positive impact on car demand in the EU.

The outlook for commercial vehicle demand is moderately positive for 2019 and 2020. The heavy commercial vehicle segment may register a temporary slowdown in 2019 after several years of robust growth. This will be compensated by continued strong demand for vans and light trucks.

Meanwhile, the outlook for exports of both vehicles and automotive parts and components is subdued. In the recent past, automotive OEMs have increasingly focused their commercial strategies and, as a consequence, capacity management decisions on localised production in key export markets. This has undermined EU vehicle and components exports and production. While the outlook for demand in the emerging markets is rather positive, demand in these regions will therefore increasingly be satisfied by domestic production. Moreover, demand in key markets such as the US and China is expected to soften and to remain depressed in Turkey.

Trade tensions will continue to overshadow the EU automotive sector. A no-deal Brexit and US tariffs on EU exports of vehicles and automotive parts and components pose a major threat to EU automotive production.

The outlook for EU automotive output is therefore rather subdued even going into in 2019, even if output is expected to recover from the emission standards disruption. It is expected that the sector will see major intra-European production shifts as OEMs curtail excess capacity to free up financial funds for further investment in alternative powertrains including hybrids, full battery electrics, hydrogen fuel cells, compressed air, and other types within the context of the decarbonisation of transport.

EU automotive production is forecast to fall by 0.2% in 2019 and to rise by 1.6% in 2020.

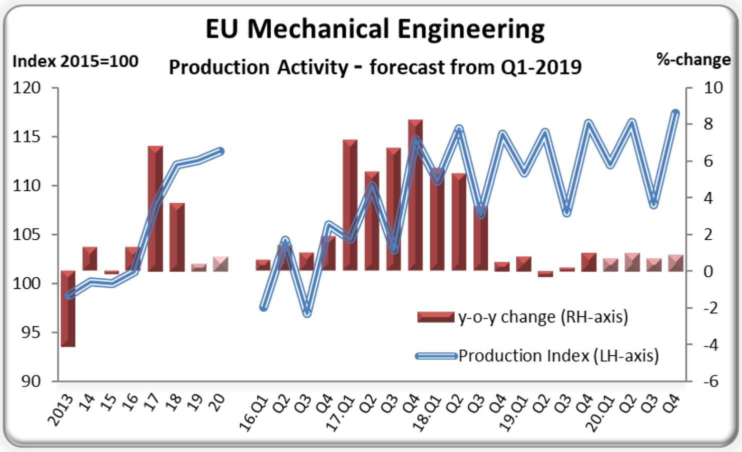
MECHANICAL ENGINEERING

Production activity in the EU mechanical engineering sector cooled down significantly in the fourth quarter of 2018.

Mechanical engineering output

Growth of production activity in the EU mechanical engineering industry slowed down to only 0.5% year-on-year in the fourth quarter of 2018. This represented the weakest quarterly growth over the past three years. With the current economic growth slowdown being led by industrial weakness, demand for capital goods is cooling on a par with easing capacity constraints and order backlogs in the industrial sectors. Corporate profits have also started to weaken, which is having a negative impact on new investment. This has been exacerbated by uncertainty related to the impact of Brexit on business conditions in the EU and worries about global protectionism in trade.

Mechanical engineering activity in the fourth quarter of 2018



The 0.5% year-on-year growth in the final quarter of 2018 contrasts sharply with much more vigorous growth over the preceding quarters of the year. As such, overall growth momentum disappointed and shows that this sector is particularly strongly exposed to the assessment of current and future business conditions. Growth was negative in Germany, France, the United Kingdom, Belgium and Hungary, while it remained on a positive trend in the other reporting EU countries. Owing to still solid order backlogs cushioning the impact of weakening business conditions over the first three quarters of the year, total activity in the EU mechanical engineering industry grew by 3.7% in 2018.

Mechanical engineering forecast 2019-2020

The outlook for the mechanical engineering sector in the EU has weakened considerably. Production activity is forecast to grow only very slowly over the forecast period 2019-2020. This should be seen in the context of a marked growth moderation in capex, particularly in the EU but also abroad, due to various headwinds ranging from weaker global trade, slowing demand in key markets such as China, protectionist measures and uncertainty related to the impact of Brexit.

Exceptionally strong demand for machinery and equipment in 2017 not only reflected improving economic conditions and the related impact on capex, but also the release of pent-up demand that had been build up in the EU market over the 2012-2015 period in the aftermath of the global economic recession and the eurozone crisis. Improving business conditions and easy access to finance provided the right mix to unleash this potential demand. This stalled in 2018.

Accordingly, the opposite business conditions trend will shape the market in 2019 and 2020. The business cycle has been losing momentum since the start of 2018 and is expected to go through a soft patch this year and next. The main external factor depressing sentiment and the assessment of the business climate is the presently highly uncertain global trade environment owing to the risk of international trade frictions escalating further. In the EU, the economic slowdown looks set to manifest itself particularly in weak capital expenditure whereas business uncertainty is exacerbated by the risks related to a hard Brexit. On balance this implies that over the forecast period external and internal headwinds will sharply reduce the actual growth rate of production activity in the EU mechanical engineering sector.

Production activity is forecast to rise by 0.4% in 2019 followed by 0.8% in 2020.

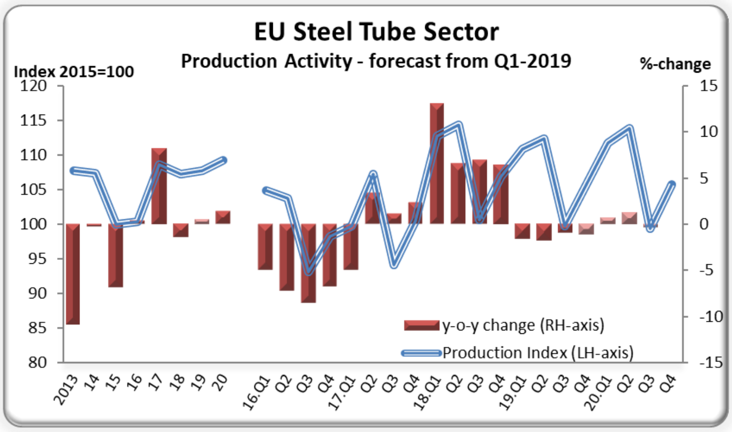
STEEL TUBE INDUSTRY

As expected, production activity in the EU steel tube industry continued its downward trend in the fourth quarter of 2018 due to weakening demand for large welded tubes from the energy sector, including pipeline operators and the offshore wind sector, and slower growth of demand for the other steel tube categories.

Steel tube industry output

In the fourth quarter of 2018, production activity in the steel tube industry fell by 3.7% year-on-year. The decline in output growth deepened in the second half of the year, more or less in line with the reduction in output registered in the first half of 2018. Most countries reported a year-on-year reduction in output; particularly sharp declines were registered in Italy, Spain, Sweden and the central European countries. In Germany, production stabilised at around the level seen the year earlier after sharp year-on-year declines over the first three quarters of 2018.

Steel tube industry activity in the fourth quarter of 2018



In line with earlier expectations, production activity in the EU steel tube sector remained weak in the final quarter of 2018. Total output fell by almost 4% year-on-year. The key factor for the reduction in output is the current lack of demand from large pipeline projects. Order books have been depleted and as a consequence the production of large welded tubes is under severe pressure; this has had a negative impact on steel tube production activity in Germany in particular. In other customer segments of the EU tube industry business conditions have become more challenging than before. Demand for small and medium-sized welded tubes and seamless tubes is also facing headwinds due to slowing demand from sectors such as automotive, metal goods and mechanical engineering. Demand from the construction sector has held up relatively well, but foreign competition in this market segment is fierce.

EU steel tube output fell by 1.9% over the whole year 2018.

Steel tube industry forecast 2019-2020

In 2019 and 2020, business conditions for the steel tube industry in the EU are expected to remain rather difficult.

The outlook for demand for large welded tubes is expected to remain uncertain. There has still been no decision on the route of the Nord Stream 2 project through territorial waters. While work on the Nord Stream 2 pipeline is ongoing in Russia, Finland, Sweden and Germany, the route through Danish international waters is still waiting final approval by the Danish authorities. The amended Danish Continental Shelf Act entered into force with retroactive effect. The law gives the Danish authorities the right to veto infrastructure projects running through territorial waters; such a judgement has now been pending for 16 months. If – in due time – approval were to be granted, it remains to be seen to what extent EU-based large tube manufacturers will benefit. Demand from other smaller projects exists, but is not significant enough to provide a significant boost to production activity.

Meanwhile, demand from the other steel tube market segments is also facing more challenges than before. With the exception of the construction sector, demand from most downstream customers of medium-sized and small welded tubes as well as seamless tubes is expected to cool down as well. This will be particularly felt in 2019 owing to a fall in production activity in the automotive and metal goods sector. Moreover, import pressure on steel tube markets in the EU will remain high. Business conditions in 2020 are forecast to become somewhat more supportive to steel tube demand again.

Total steel tube output in the EU is expected to fall by 0.2% in 2019 before growing by 1% in 2020.

ELECTRICAL DOMESTIC APPLIANCES INDUSTRY

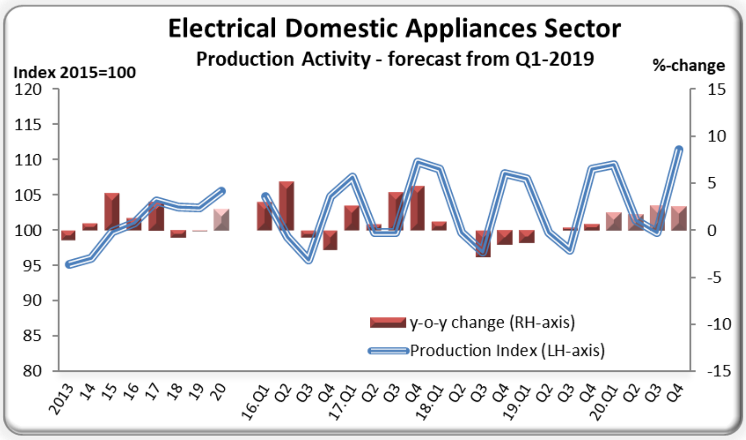
Production activity in the electrical domestic appliances industry fell by 1.5% in the fourth quarter of 2018.

Electrical domestic appliances output

Production activity in the EU's electrical domestic appliances sector fell by 1.5% year-on-year in the final quarter of 2018, continuing the downward trend in output registered in the third quarter of 2018. To a significant extent the fall in production reflects a base year effect due to rather strong growth in the third and fourth quarters of 2017. However, growth momentum in the electrical domestic appliances market has been losing momentum since the start of 2018.

Electrical domestic appliances industry activity in the fourth quarter of 2018

Although at the individual country level the underlying trend in production activity still diverged, the final quarter of 2018 provided evidence of a rather broad-based cooldown in business conditions across the EU. Output growth was negative in Germany, the UK, the Benelux countries, Spain, the Czech Republic and Slovakia while production stabilised just above the level seen in France and Italy in 2017. Positive growth was reported in the other reporting countries.



Lower levels of consumer confidence and a moderation in growth of private consumption resulted in slowing demand for electrical domestic appliances following a period of relative market strength.

All in all, total production fell by 0.8% in 2018.

Electrical domestic appliances industry forecast 2019-2020

EU demand for electrical domestic appliances is forecast to stabilise in 2019, before picking up speed again in 2020. Private consumption is expected to remain supportive to demand for household appliances, despite a mild moderation in growth over the forecast period compared with more dynamic growth in 2016 and 2017. Rising incomes and the strength of the labour market in combination with still low cost of finance are factors which provide the basis for this assumption.

Nevertheless, the EU market for household appliances is typically driven by replacement demand. Robust sales in 2017 likely absorbed most of the pent-up demand that existed in the EU market. To a significant extent the slowdown in demand in 2018 and 2019 should be seen as a correction of higher sales volumes in 2017.

Other factors such as residential building activity and property market trends are, in principle, supportive to demand for household appliances, albeit less so than in the preceding years which were characterised by a broad-based boom in housing construction across the EU.

Innovative features of electric domestic appliances may trigger the interest of consumers and lead to early replacement of existing kitchen and general household equipment. These are basically technologies that allows for increased levels of interactivity between consumer and appliance to supervise electricity consumption in real time via a smart phone, tablet, or as part of a home automation system. If a house is equipped with solar panels, smart appliances could make optimal use of locally produced energy and would offer the consumer benefits when using relatively energy-intensive appliances such as washing machines and tumble dryers. Intelligent features in the cooling and freezing segment include tracking of expiration dates, automatic adjustment of cooling levels to the types of food that are stored, and the creation of shopping lists. It is expected that in the European market demand for smart household appliances will gradually gain traction, but it may take some time to reach the mainstream usage phase.

Meanwhile, international competition will remain fierce in this market, especially in the lower and medium quality segments, rather than in the high-end market segment.

Production activity in the EU is forecast to fall by 0.1% in 2019 and to rise by 2.2% in 2020.

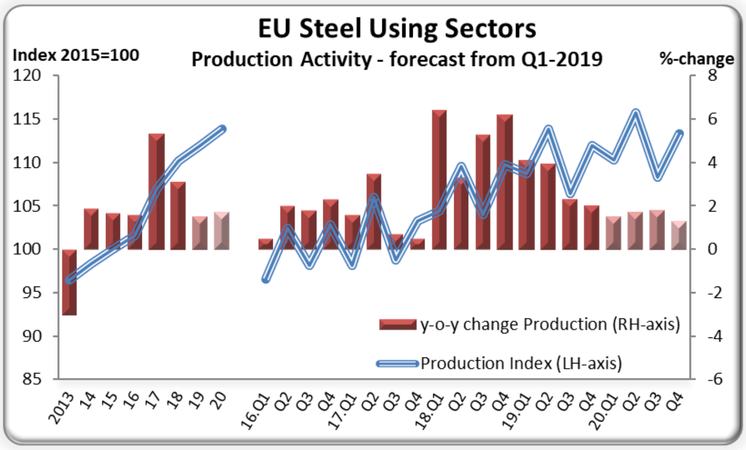
TOTAL STEEL-USING SECTORS OUTPUT

Total production activity in EU steel-using sectors grew by 1.1% year-on-year in the fourth quarter of 2018.

Total steel-using sector activity in the fourth quarter of 2018

As anticipated, total production growth in EU steel-using sectors cooled further in the fourth quarter of 2018.

The moderation started in the third quarter, after six months of strong and uninterrupted growth momentum in industry. The strongest slowdown was registered in the automotive sector, followed by the mechanical engineering sector, the steel tube industry and



the metal goods industry. Meanwhile, production activity in the construction sector did not witness much of a growth deceleration, but continued to expand at a healthy pace.

Italy, the UK and Belgium registered lower production activity in the fourth quarter of 2018 than in the same period of 2017. Production growth maintained a positive growth trend in the other reporting countries.

Total output grew by 2.8% over the whole year 2018.

Year-on-year %-change EU Steel Weighted Industrial Production (SWIP) index

	% Share in total Consumption	Year 2018	Q1'19	Q2'19	Q3'19	Q4'19	Year 2019	Q1'20	Q2'20	Q3'20	Q4'20	Year 2020
Construction	35	4.8	3.1	2.7	1.3	1.6	2.1	1.6	1.7	1.7	1.7	1.7
Mechanical engineering	14	3.7	0.8	-0.3	0.2	1.0	0.4	0.7	1.0	0.7	0.9	0.8
Automotive	18	0.6	-2.1	-2.8	0.6	4.1	-0.2	0.7	1.7	2.1	2.0	1.6
Domestic appliances	3	-0.8	-1.3	0.0	0.3	0.6	-0.1	1.9	1.7	2.6	2.5	2.2
Other Transport	2	8.2	6.4	2.5	-0.4	0.3	2.3	1.3	1.4	2.1	0.9	1.4
Tubes	13	-1.9	-1.2	0.2	0.0	0.1	-0.2	0.5	1.1	1.1	1.2	1.0
Metal goods	14	1.8	-0.8	-0.5	-0.1	0.0	-0.4	0.4	0.8	1.0	1.2	0.8
Miscellaneous	2	2.2	0.0	0.7	1.4	2.0	1.0	2.4	2.4	2.0	2.7	2.4
TOTAL	100	2.8	0.8	0.4	1.0	1.4	0.9	0.6	1.2	1.3	1.2	1.1

Total steel-using sectors forecast 2019-2020

Prospects for production activity in EU steel-using sectors are rather weak, with external and internal headwinds undermining the outlook. This is particularly true for those sectors which are more exposed than average to international trade in general, the UK market and the assessment of the investment climate by the corporate sector. This implies that the performance of the engineering sectors and the automotive industry will disappoint in comparison with significantly better activity levels in 2017 and the first half of 2018.

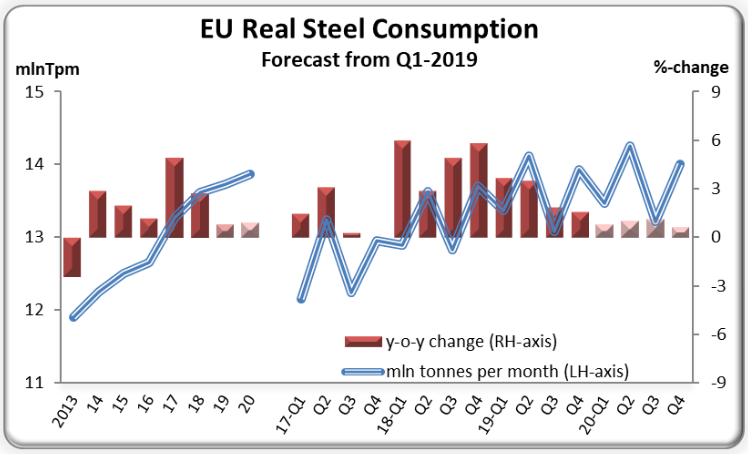
Nevertheless, domestic demand will continue to grow, albeit at a more moderate rate than registered in the preceding two years. However, both exports and investment are at risk of falling behind expectations in case of a hard Brexit and an escalation in global protectionist measures. Automotive tariffs imposed by the US of automotive imports from the EU would seriously harm the car sector and its supply chain. The significant degree of uncertainty the corporate sector is facing clearly has the potential to lead to a negative confidence shock and investment decisions being postponed until more clarity emerging on trade conditions and Brexit. On the other hand, a well-managed Brexit and the settlement of US-EU trade disputes would pose an upside risk.

Output in the EU's steel-using sectors is forecast to grow by 0.9% in 2019 and by 1.1% in 2020.

REAL STEEL CONSUMPTION

Real steel consumption rose by 0.5% year-on-year in the fourth quarter of 2018 and was 41.1 million tonnes.

Real steel consumption in the fourth quarter of 2018



The ongoing deceleration in production growth in EU steel-using sectors resulted in only marginal growth in real steel consumption - at 0.5% year-on-year - in the fourth quarter of 2018.

Growth in real steel consumption already slowing markedly in the third quarter and coming almost to standstill in the final quarter of 2018 marks the end of a period of very robust quarterly increases in final steel use in 2017 and the first half of 2018.

On balance, total real steel consumption in the EU rose by 2.3% in 2018.

Real steel consumption forecast 2019-2020

The weakened prospects for growth of production activity in EU steel-using sectors over the 2019-2020 period will inevitably translate into only very moderate growth of real steel consumption over that period. This situation is compounded by the fact that the steel intensity of production in the EU steel using sectors is negative, owing to investment increasingly being geared towards services, limiting material content in its product mix.

EU real steel consumption is forecast to grow by 0.2% in 2019 and by 0.5% in 2020.

This will result in real steel consumption reaching 163 million tonnes in 2019 and 164 million tonnes in 2020. This implies that the expected moderation in real steel consumption growth will result in final steel use in the EU market gaining a meagre 1.3 million tonnes by the end of 2020 compared with consumption in 2018.

Forecast for real consumption - % change year-on-year											
Period	Year 2018	Q1'19	Q2'18	Q3'19	Q4'19	Year 2019	Q1'20	Q2'20	Q3'20	Q4'20	Year 2020
% change	2.3	0.2	-0.2	0.4	0.8	0.3	0.0	0.6	0.7	0.7	0.5

THE EU STEEL MARKET: SUPPLY

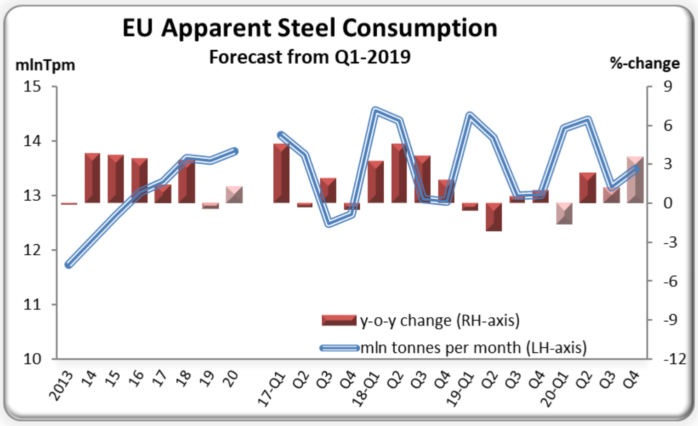
The supply-side of the EU steel market analyses factors in the impact of domestic and foreign supply, as well as stock effects in the distribution chain and at end-users.

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 fourth quarter of 2018

EU28 apparent steel consumption rose by 1.8% year-on-year in the third quarter of 2018 and amounted to 38.7 million tonnes. In line with the usual seasonal pattern of steel demand and inventory changes over the year, the fourth quarter of 2018 was characterised by destocking in the steel supply chain.



Total apparent steel consumption over the whole year 2018 grew by 3.3%. On balance the inventory change over the year was slightly positive, which was reflected by higher than usual stock levels for most finished products at distributors and merchants at the end of the year.

EU domestic and foreign supply

In the final quarter of 2018 domestic deliveries from EU mills to the EU market decreased by 2.1% compared with the same period of 2017. This was the result of third country imports growing by 16.3% year-on-year within a context of flattening steel demand growth over that timeframe. Imports amounted to 9.6 million tonnes and accounted for 24.7% of EU steel demand.

Over the whole year 2018 third country imports rose by 12.6% which contrasts sharply with the 1.7% rise in domestic deliveries. The preliminary safeguard measures imposed by the EU Commission in July 2018 were supportive to limiting import volumes in the second half of the year compared with the extraordinary high import volumes that landed in the EU in the first half. However, the sharp year-on-year rise in the second half of the year also illustrates that the threat of deflection of tonnage due to the US' Section 232 tariffs on steel imports and market distortions due to the global overcapacity problem and other countries' protectionist measures is still very much alive.

Apparent steel consumption forecast 2019-2020

The outlook for EU steel demand is subdued. The base case scenario for the development of final steel use shows only marginal growth in 2019 and 2020. Given the uncertainty that currently surrounds the EU steel market in terms of demand and supply fundamentals, steel inventories will be managed with care. With reportedly relatively high inventories in the steel distribution chain at the start of 2019, apparent steel consumption is forecast to fall by 0.4% over the whole year 2019. Apparent steel consumption may grow by 1.3% in 2020.

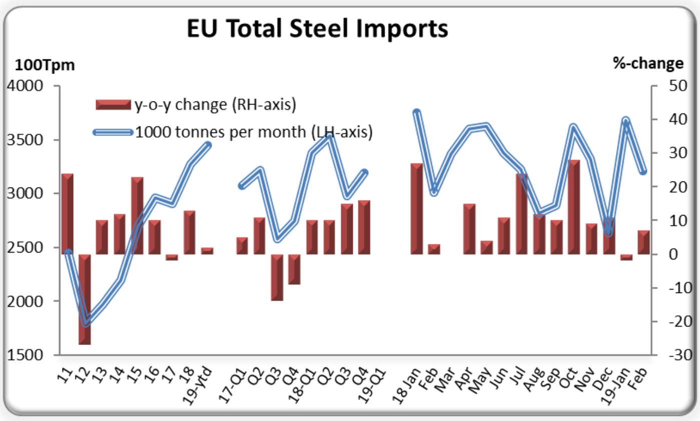
Meanwhile, the relaxation of the final safeguard measures – with an enlargement by 5% In February and another upwards revision of 5% in July - appears to be completely out of step with the anticipated evolution of the EU steel market in 2019. As such, the 10% increase in import quota allowed in the final safeguard measures risks squeezing the EU steel sector between rising import pressure and a depressed market.

	EU apparent steel consumption - in million tonnes per year									
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 (f)	2020 (f)
Million tonnes	148	158	141	141	146	152	157	159	164	164	166

Forecast for EU apparent steel consumption - % change year-on-year											
Period	Year 2018	Q1'19	Q2'19	Q3'19	Q4'19	Year 2019	Q1'20	Q2'20	Q3'20	Q4'20	Year 2020
% change	3.3	-0.6	-2.2	0.5	1.0	-0.4	-1.6	2.3	1.2	3.6	1.3

IMPORTS

Following the near 13% rise in total imports – including semi-finished products – over the whole year 2018, the increase eased to 2% year-on-year over the first two months of 2019.

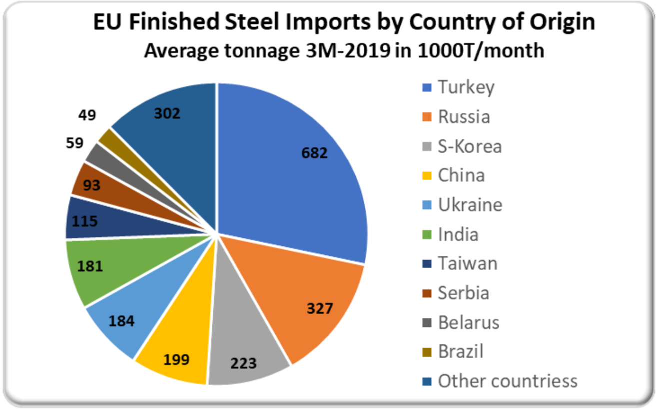


Including SURV2 data for March 2019 finished product imports fell by 3% year-on-year over the first quarter, owing to a 5% year-on-year increase in flat product imports and a 24% drop in long product imports.

The average monthly volume of finished products in the first quarter of 2019 amounted to 2.42 million tonnes. This implies that even though there was a slight moderation compared with the same quarter of 2018, monthly imports so far this year were 9.5% higher than in the second half of 2018 while remaining very close to the elevated level of monthly imports registered over the whole year 2018.

Imports by country of origin

Over the first three months of 2019, the main countries of origin for finished steel imports into the EU market were Turkey, Russia, South Korea, China and Ukraine. These five countries represented 67% of total finished steel imports into the EU.

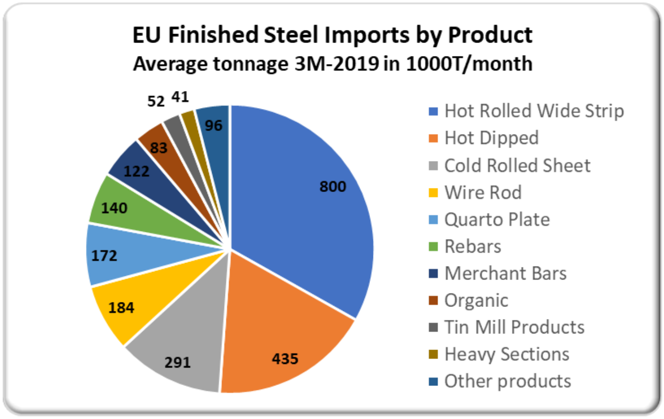


Turkey retained its position as both the largest exporter of finished steel products to the EU and the country showing the strongest year-on-year rise of the ten major countries of origin of EU finished steel imports.

Imports from Russia, Ukraine and Belarus were also on a rising trend over the first quarter of 2019. Meanwhile, imports from India and Brazil were significantly lower than in the corresponding period of 2018; to a lesser extent this is also true for imports from Taiwan and South Korea. Imports from China stabilised around the level seen in the previous year.

Imports by product category

EU imports of finished steel products over the whole year 2018 were characterised by the massive increase in long products imports – at a rate of 33% - and a more moderate 7% rise in flat product imports. As a consequence, long imports accounted for 25% of total finished steel imports.

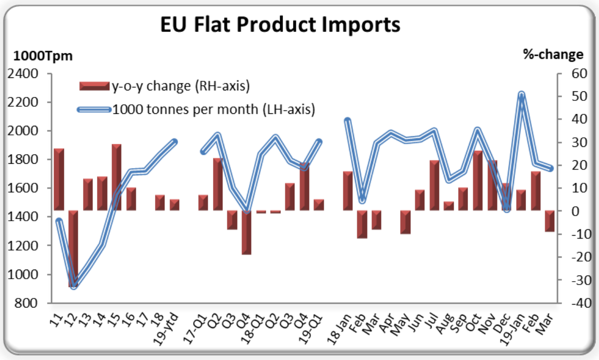


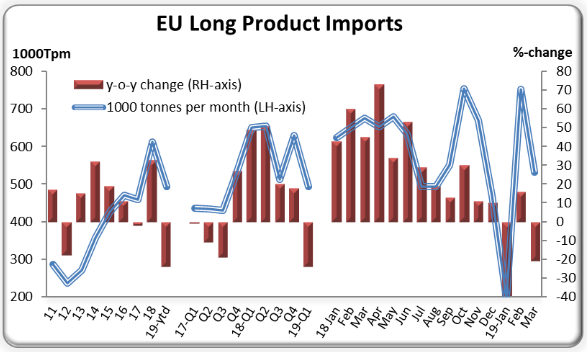
Trade data for the first quarter of 2019 show a different import pattern with a continued but slightly lower rise in flat product imports of 5% year-on-year and a 24% year-on-year reduction in long product imports. This resulted in the share of long products in total finished steel product imports being reduced to 19%.

Organic coated sheet, hot-rolled wide strip and hot-dipped galvanised sheet product imports registered the strongest year-on-year rise (by 21%, 15% and 14% respectively) over the first three months of 2019. Imports of other flat products such as cold-rolled sheet, quarto plate and tin mill products registered a moderate decline compared with the same period of 2018.

The drop in long product imports in the first quarter of 2019 resulted in monthly imports falling below the average monthly level of long product imports registered in 2018. The most pronounced reduction was seen in rebar: imports were 30% down compared with imports in the first quarter of 2018. Imports of merchant bar, wire rod and heavy sections fell by 23%, 22% and 12% year-on-year respectively.

With only customs data available for the first quarter of 2019 it is difficult to provide a balanced assessment of the likely trend in imports in the remainder of this year. Nevertheless, with imports remaining at elevated levels and exports on a downward trend in early 2019, the justified conclusion seems to be that there is no evidence of an easing in competitive pressures in international steel markets.

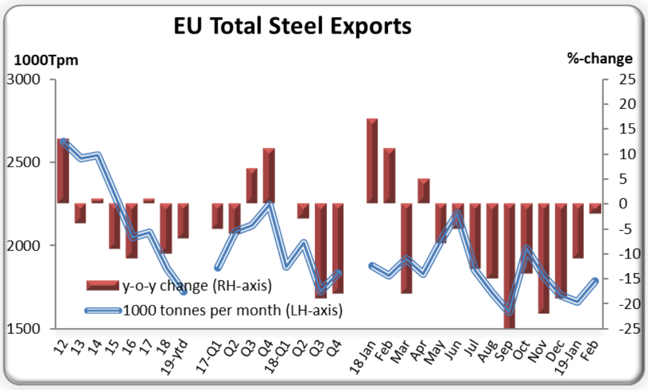




EXPORTS

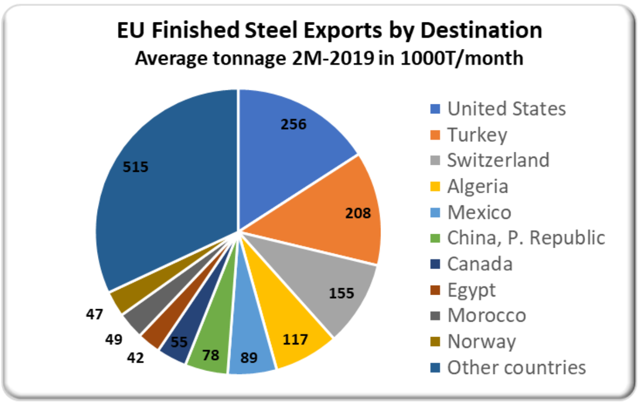
Having fallen by 10% over the whole year 2018, total EU exports of steel products to third countries continued their downward trend over the first two months of 2019.

The 7% year-on-year drop over this period was the result of a 34% year-on-year reduction in semis exports and a 4% fall in finished steel products exports. Underlying figures show that exports of flat products fell by 7% year-on-year while long product exports rose by 3% year-on-year.

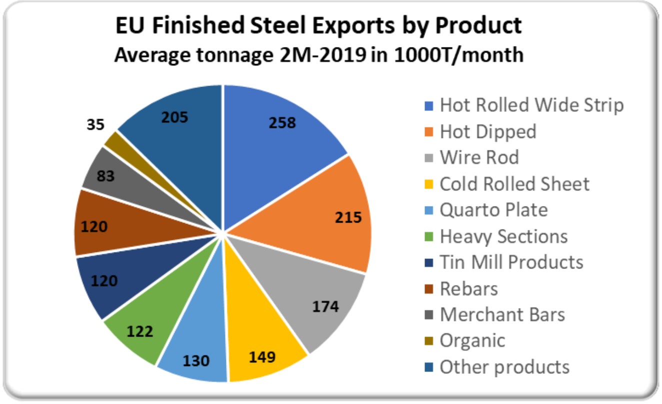


Exports by country

Over the first two months of 2019, the United States, Turkey and Switzerland remained the largest export destinations for EU finished product exports, followed by Algeria and Mexico. These three countries together accounted for 38% of total EU finished product exports over this period. Exports to the US grew by 35% year-on-year over the first two months of 2019. However, the volumes shipped by EU producers to the US in January and February 2018 were lower than usual. Compared with the monthly average of export over the whole year 2018, imports over the first two months of 2019 fell by 8%. Meanwhile, exports to Turkey fell by 40% year-on-year and exports to Switzerland dropped by 6% compared with the same period of 2018.



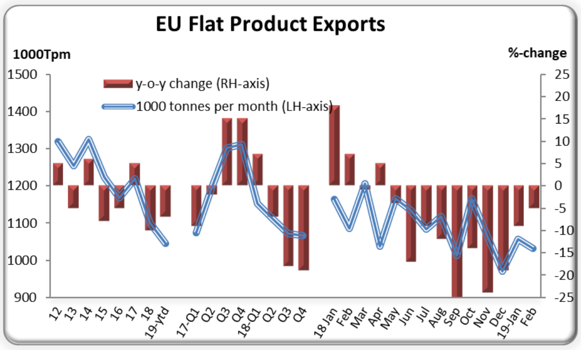
Exports by product category

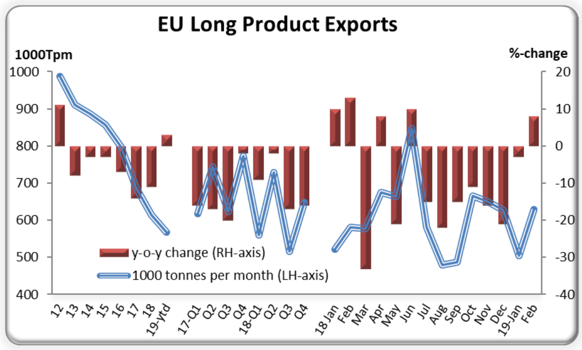


Within the product mix of EU steel exports, semis accounted for only 6% of total EU exports over the first two months of 2019 while flat and long finished product exports accounted for the remaining 94% of total exports.

Flat product exports accounted for 61% of total exports and long product exports accounted for the remaining 33%.

Underlying figures for exports by product group shows that over the first two months of 2019 most flat products exports were down compared with the same period of 2018; only exports of organic coated sheet and packaging steel registered a rise in export volumes. With regard to long product exports, both wire rod and rebar export were higher than a year ago, whereas a decline was registered in exports of merchant bars and heavy sections.





Trade balance

The trade deficit in semis amounted to 0.84 million tonnes per month over the first two months of 2019. The net trade deficit in finished products amounted to 0.88 million tonnes per month over this period. The deficit in flat products was 0.97 million tonnes per month. The trade deficit in both semis and flat products deepened in the first two months of 2019 compared with the average monthly deficits registered over 2018.

Trade in long products bounced back to a marginal surplus of 0.09 million tonnes per month, compared with the equilibrium between imports and exports registered over 2018.

At the individual country level, by far the largest trade deficit exists with Turkey; over the first two months of 2019 the deficit rose to 0.54 million tonnes per month compared with on average 0.25 million tonnes per month over the whole year 2018. Significant deficits were also recorded for trade with Russia, Ukraine, South Korea and India. The major markets of destination for EU finished steel exports that registered a surplus over the first two months of 2019 were the US, Switzerland and Algeria.

With only two months of data available for the current trend in steel exports to third countries it is impossible to see a clear pattern in trade flows at this stage. Nevertheless, with imports remaining at elevated levels and exports on a downward trend in early 2019, a preliminary conclusion seems to be justified be that there is no evidence of an easing in competitive pressures in the international steel market. With global steel overcapacity still estimated at 550 million tonnes by the OECD, it is of the utmost importance that individual countries and regions dismantle market-distorting subsidies and other government support measures and share data and information on the process of capacity reduction in order to facilitate the process of cutting excess capacity where it is needed most and to avoid a further proliferating in trade distortions.

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 320,000 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.