July 2024

ECONOMIC AND STEEL MARKET OUTLOOK 2024 2025

Q3 REPORT

Data up to, including, Q1 2024

EUROFER
THE EUROPEAN STEEL ASSOCIATION

EXECUTIVE SUMMARY

The negative trend in the steel market observed in the first half of 2023 has persisted and become more acute over the last three quarters. The severe consequences of the war in Ukraine and the deteriorating manufacturing outlook, along with the overall economic environment, continued to take their toll. Apparent steel consumption in the EU decreased (-3.1%) in the first quarter of 2024, after a rise (+2.9%) in the preceding quarter which was mainly due to the comparison with the very low volumes seen one year earlier. After a significant recession (-8.3%) in 2022, persistent downside factors such as ongoing conflicts, uncertainty surrounding energy prices and inflation combined with a worsened economic outlook, have further negatively impacted apparent steel consumption in 2023. The data reveal a more pronounced contraction (-9%) compared to 2022, marking the fourth annual recession in the last five years.

This downward trend is set to also impact the anticipated rebound for this year.

In 2024, conditional on more favourable developments in the industrial outlook and increased steel demand, apparent steel consumption is projected to recover at a lower rate than previously estimated (+1.4% vs. +3.2%). The overall evolution of steel demand remains subject to very high uncertainty. Moderate quarterly improvements in apparent steel consumption are expected to continue throughout 2024, although volumes are still expected to remain below pre-pandemic levels.

EU STEEL MARKET OVERVIEW

In the first quarter of 2024, apparent steel consumption dropped (-3.1%), following an increase in the preceding quarter (+2.9%), which was largely due the comparison with very low volumes seen one year earlier. The total volume in the first quarter of 2024 stood at 31.9 million tonnes.

The current downturn in EU apparent steel consumption, reflecting poor demand conditions began in the second quarter of 2022, due to war-related disruptions, unprecedented rises in energy prices and production costs. Demand conditions worsened considerably during the second half of 2022, and this negative cycle continued until the fourth quarter of 2023, as a result of growing global economic uncertainty, high interest rates and overall manufacturing weakness.

Domestic deliveries mirrored developments in demand, contracting (-5.8%) after an increase (+1.3%) in the preceding quarter. In 2022, deliveries plummeted (-9.1%), reflecting the sharp deterioration in demand. As a result of protracted negative developments throughout the year, in 2023 domestic deliveries markedly dropped again (-4.6%).

Imports into the EU including semi-finished products increased (+12%) in the first quarter of 2024, following a similar rise in the preceding quarter (+11.3%). It is also worth noting that the drops in imports recorded in the previous quarters essentially reflected weak demand conditions. Therefore, the share of imports out of apparent consumption has remained considerably high in historical terms throughout 2023 and up to the first quarter of 2024, reaching 27%.

EU STEEL-USING SECTORS

In the first quarter of 2024, the Steel Weighted Industrial Production index (SWIP) dropped (-1.9%) after a marginal increase (+0.5%) in the previous quarter. EU steel-using sector's output had continued to grow, albeit at a slower pace, showing unexpected resilience despite the prolonged impact of Russia's invasion of Ukraine, overall manufacturing weakness, global geopolitical tensions, and above-average energy prices.

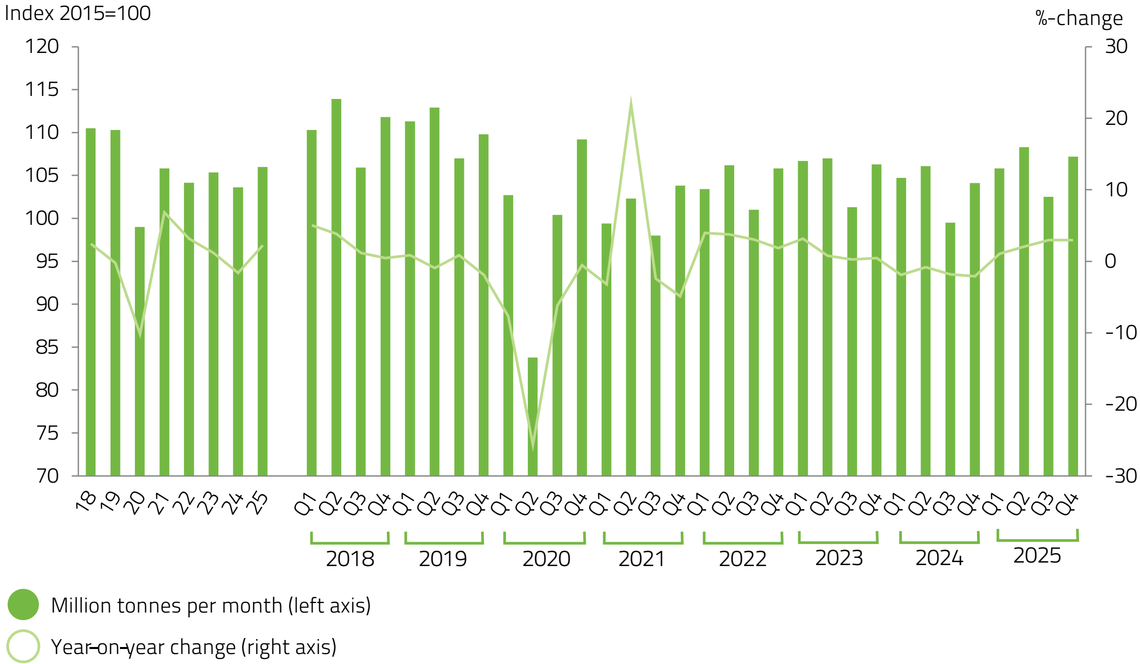
The latest developments in the SWIP index were a combination of a continued downturn in the construction, mechanical engineering, domestic appliances and metalware sectors, only partly compensated by the continued growth in the automotive. The construction sector already entered recession in the third quarter of 2022 and saw its seventh consecutive quarterly drop (-2.3%, after -0.1% in the preceding quarter), and its recessionary trend is expected to continue throughout 2024. The positive trend in overall SWIP, which began after the pandemic, continued up to the fourth quarter of 2023, despite soaring energy prices impacting production costs, component shortages and lower output that starting to affect total production activity in steel-using sectors in the second half of 2022. The deterioration of the economic and industrial outlook in the EU – particularly due to high inflation and the subsequent interest rate hike by the European Central Bank (ECB) – had only a limited impact on steel-using sectors' output up to the end of 2023. The construction sector, which accounts for 35% of steel consumption in the EU, was the only significant exception.

Ongoing economic uncertainty is set to continue taking its toll on growth in the upcoming quarters. The year 2024 is expected to be characterised by unpredictability, stemming from energy price levels, continued weakness in steel demand, inflation and interest rate-driven economic challenges.

EU Steel Using Sectors

Production Activity

Forecast from Q2-2024



CONCLUSIONS

The ongoing economic uncertainty is set to continue affecting steel market growth from the demand side over the upcoming quarters:

1. Despite EU industry proving quite resilient throughout 2023, the outlook for 2024 remains dominated by a worsening combination of uncertainties in energy prices, weak demand, inflation above target levels, severe geopolitical tensions and economic challenges driven by high interest rates, despite initial monetary easing.

2. While output grew more than expected (+3.2%) in 2022, SWIP growth in 2023 slowed down, achieving a higher-than- estimated growth (+1.2% vs. +1.1%), albeit with wide differences among individual EU economies and industrial sectors.

3. In 2024, growth in steel-using sectors is projected to drop (-1.6%, previously set at -1%), due to the second recession in a row in the construction sector, persistent geopolitical tensions, and the lagged impact of high interest rates on the overall manufacturing sector. Moderate growth is expected to resume moderately (+2.3%) in 2025.

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THE EU STEEL MARKET: SUPPLY

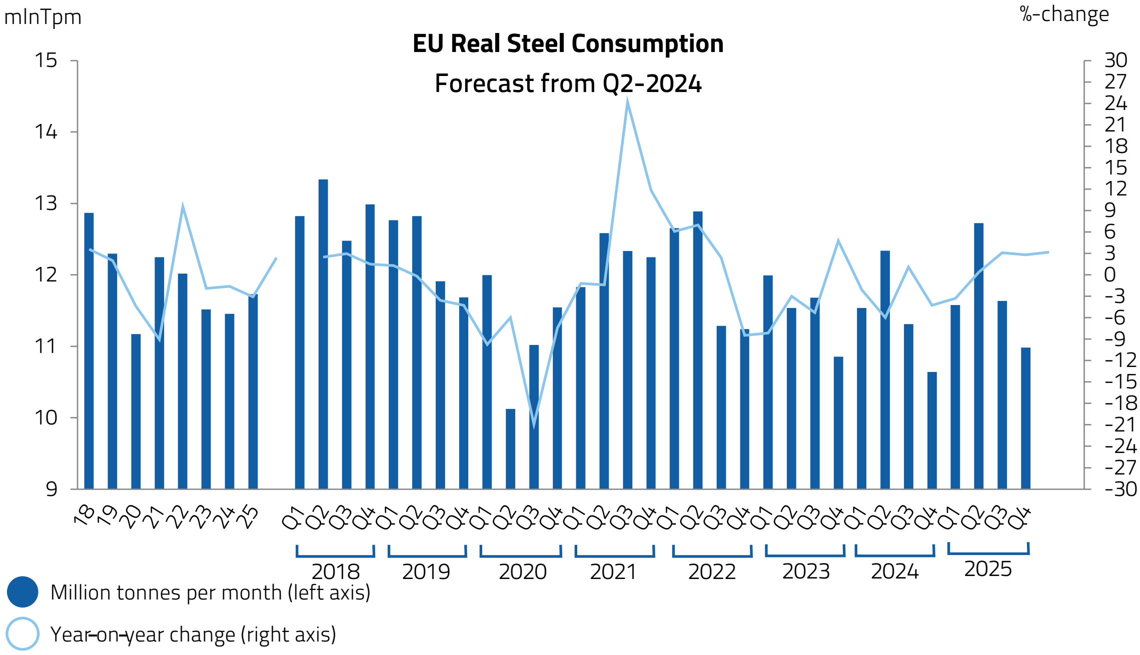
REAL STEEL CONSUMPTION

FIRST QUARTER 2024

In the first quarter of 2024, real steel consumption decreased again (-6%), after the contraction seen in the fourth quarter of 2023 (-2.1%).

Real steel consumption decreased in 2022 (-1.6%) and, albeit less severely, in 2023 (-1.9%). It is expected to drop again in 2024 (-3.1%, revised downwards from +1.7%). Real consumption is projected to recover only in 2025 (+2.4%, revised upwards from +2.1%). Some re-stocking along the steel distribution chain is not be expected before then end of 2025.

The two consecutive recessions of 2019 and 2020 were caused by a considerable slowdown in the activity of steel-using sectors due to a downturn in manufacturing and trade, and the COVID crisis, respectively. The counter-cyclical destocking trend that started in late 2019 persisted throughout 2020. It only began to reverse in the first quarter of 2021 when growth in steel demand was expected to continue. The trend of weak demand conditions has continued in the first three quarters of 2023, given the protracted impact of the war in Ukraine and growing global geopolitical tensions, high inflation and uncertainty on the global industrial outlook and energy prices. Although de-stocking has continued at very high historical levels - reflecting poor demand perspectives -, real consumption growth was negative both in 2022 and 2023, and is also expected to be negative in 2024.



Forecast for real consumption - % change year-on-year

Period	**2023**	Q1'24	Q2'24	Q3'24	Q4'24	**2024**	Q1'25	Q2'25	Q3'25	Q4'25	**2025**
% Change	**-1.6**	-6.0	1.1	-4.3	-3.3	**-3.1**	0.4	3.1	2.8	3.2	**2.4**

APPARENT STEEL CONSUMPTION

FIRST QUARTER 2024

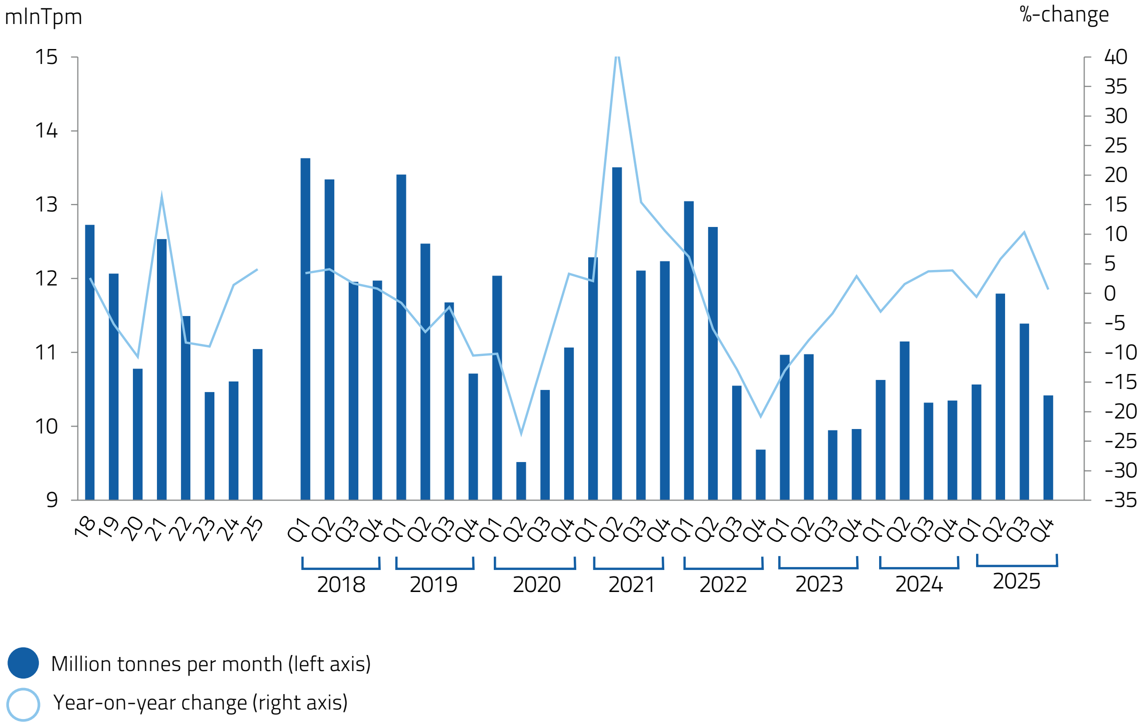
In the first quarter of 2024, apparent steel consumption dropped (-3.1%), after an increase in the preceding quarter (+2.9%), which was largely due the comparison with very low volumes seen one year earlier. The total volume in the first quarter of 2024 stood at 31.9 million tonnes.

The current downturn in EU apparent steel consumption, reflecting poor demand conditions, began in the second quarter of 2022, due to war-related disruptions, unprecedented rises in energy prices and production costs. Demand conditions have been worsening considerably during the second half of 2022, and this negative cycle has continued until the fourth quarter of 2023, as a result of growing global economic uncertainty, high interest rates and overall manufacturing weakness.

The dire consequences of the conflict in Ukraine on steel-using industries and the worsened overall economic outlook resulted in a severe recession (-8.3%) already in 2022. These protracted downside factors further impacted apparent steel consumption in 2023, resulting in an even deeper annual drop (-9%). This represents the fourth annual recession in the last five years. In 2024, conditional on more favourable developments in the industrial outlook and improvement in steel demand, apparent steel consumption is set to recover moderately (+1.4%, revised downwards from +3.2%). In 2025, apparent steel consumption is set to gain some speed, albeit at a slower pace than previously foreseen (+4.1% vs. +5.6%)

The overall evolution of steel demand remains subject to very high uncertainty. However, some moderate improvements in apparent steel consumption are expected over the next three quarters of 2024, although consumption volumes are likely to remain far below pre-pandemic levels.

EU Apparent Consumption
Forecast from Q2-2024



EU DOMESTIC AND FOREIGN SUPPLY

In the first quarter of 2024, domestic deliveries mirrored changes in demand and contracted (-5.8%) after the increase (+1.3%) recorded in the preceding quarter. In 2022. deliveries plummeted (-9.1%), reflecting the sharp deterioration in demand. As a result of protracted negative trends throughout the year, domestic deliveries markedly dropped again (-4.6%) in 2023.

Imports into the EU including semi-finished products increased (+12%) in the first quarter of 2024, after a similar rise in the preceding quarter (+11.3%). It is worth noting that the drops in imports recorded in previous quarters essentially reflected weak demand conditions. Consequently, the share of imports out of apparent consumption has remained considerably high in historical terms throughout 2023 and into the first quarter of 2024, reaching 27%.

EU apparent steel consumption - in million tonnes per year

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	**2024 (f)**	**2025 (f)**
Million tonnes	142	147	149	153	145	129	150	138	126	127	133

Forecast for EU apparent steel consumption - % change year-on-year

Period	**2023**	Q1'24	Q2'24	Q3'24	Q4'24	**2024**	Q1'25	Q2'25	Q3'25	Q4'25	**2025**
% Change	**-9.0**	3.1	1.6	3.7	3.9	**1.4**	-0.6	5.8	10.4	0.7	**4.1**

IMPORTS

In the first quarter of 2024, total steel imports (including semis) into the EU increased year-on-year (+12%), following similar developments in the fourth quarter of 2023 (+11%). During the first four months of 2024, imports of all steel products rose (+11%) compared to the corresponding period of the previous year. In 2023, total imports fell (-9%) compared to the previous year, following the drop already observed in 2022 (-7%).

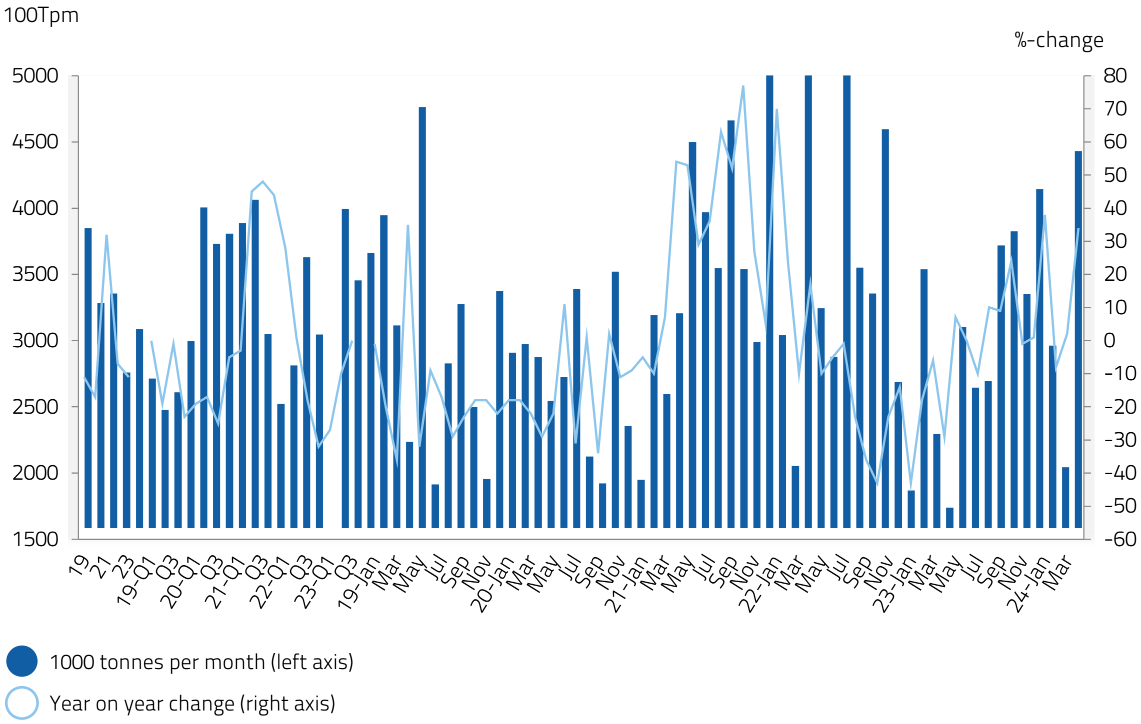
Imports of finished products also increased (+12%) in the first quarter of 2024, following the rise seen in the preceding quarter (+11%). During the same period, imports of flat products grew significantly (+22%) after the surge in the preceding quarter (+25%), whereas imports of long products slumped again (-15%, after -20% in the previous quarter).

In the first four months of 2024, imports of finished products rose (+20% year-on-year), and so did imports of flat products (+30%) whereas imports of long products decreased (-9%). In 2023, imports of finished products decreased overall (-11%). Specifically, imports of flat products fell (-8%), along with imports of long products (-22%).

Imports have displayed consistent volatility throughout 2023, mirroring the fluctuations seen in the three preceding years. After the outbreak of COVID-19, imports surged again for certain products and showed some volatility over the second half of 2020. However, the increase became much more pronounced during 2021, particularly over the second and third quarters, reaching high levels in historical terms. This development mirrored buoyant steel demand conditions up to end-2021, while volatility continued over the fourth quarter of 2021 and throughout 2022. Reflecting much weaker demand since the first quarter of 2022, imports have been declining in volume from the second half of 2022 to the second quarter of 2023, before increasing again in the second half of 2023. However, over the entire year 2023, imports remained at elevated historical levels, resulting in very high import shares out of apparent consumption (27%), as well as in a widening trade deficit vis-à-vis third countries.

EU Total Steel Imports

Finished products



IMPORTS BY COUNTRY OF ORIGIN

In the first four months of 2024, the main countries of origin for finished steel imports into the EU market were, in descending order: India, Turkey, Vietnam, South Korea, Taiwan, Japan and China. The top five exporting countries in the first four months of 2024 accounted for 56% of total EU finished steel imports. India has maintained its role of leading exporting country to the EU (with a share of 15.8%), followed by Turkey (12.6%), Vietnam (10.3%), South Korea (8.9%), Taiwan (8.7%), Japan (6.8%) and China (6.6%).

In the first four months of 2024, imports from major exporting countries showed diverging developments. Imports of finished products from China and South Korea plunged (–38% and -11% respectively). On the contrary, imports increased from Taiwan (+17%) and Japan (+10%), boomed from Turkey (+85%) and India (+62%), and notably Vietnam (+155%).

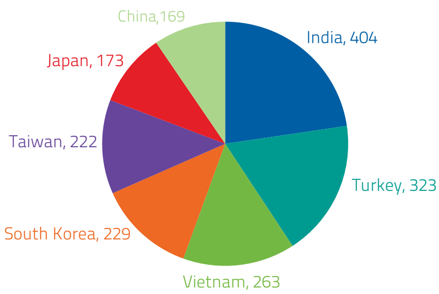
IMPORTS BY PRODUCT CATEGORY

According to customs data, imports of flat products into the EU market increased (+30%), whereas imports of long products fell (-9%) in the first four months of 2024. The share of long products out of total finished steel product imports was 19%. Overall, imports of finished products increased (+20%).

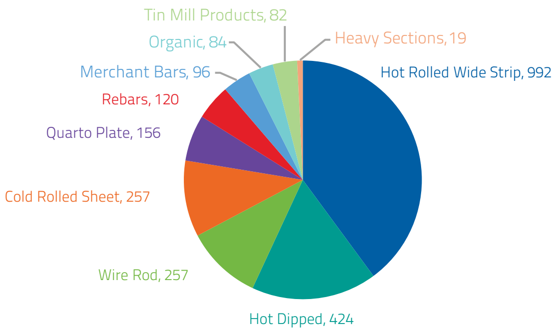
Within the flat product market segment, imports of all flat products increased during the first four months of 2024 compared to the same period in 2023. In particular, imports of hot-rolled wide strip increased (+51%), along with hot dipped (+44%), coated sheets (+41%) and organic (+33%). Imports of cold rolled sheets and quarto plate increased more moderately (+13% and +8%, respectively).

Regarding long products, imports in the first four months of 2024 recorded an increase only for wire rod 19%, whereas imports of rebars dropped (-2%), as well as imports of heavy sections (-44%) and merchant bars (-42%).

EU Finished Steel Imports by Country
4M-2024,
(monthly '000 metric: tonnes)



EU Finished Steel Imports by Product
4M-2024,
(monthly '000 metric: tonnes)

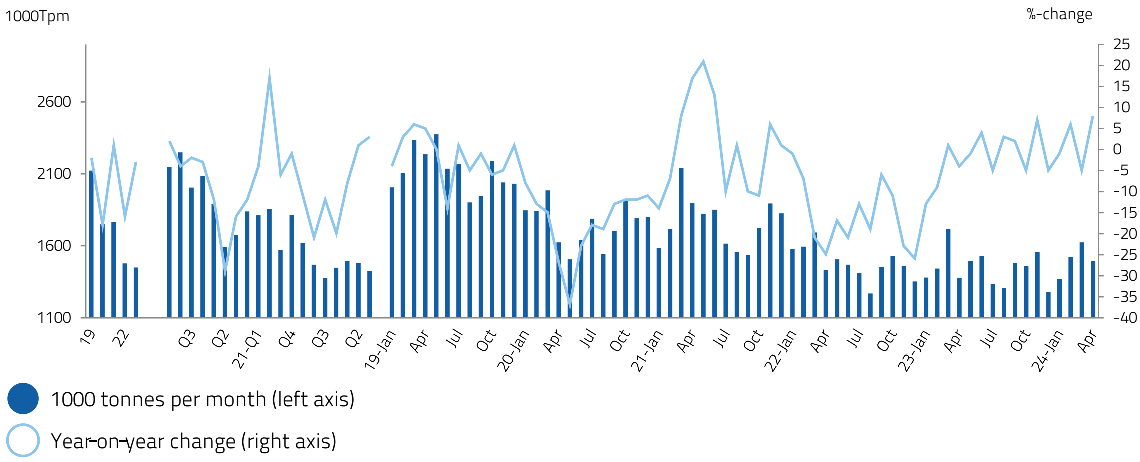


EXPORTS

In the first quarter of 2024, total EU exports of steel products to third countries marginally decreased (-1%, after flat developments in the preceding quarter). However, exports of finished steel products increased (+3%), after recording zero growth in the fourth quarter of 2023. In particular, exports of both flat and long products increased (+2% and +5%, respectively). Over the first four months of 2024, total exports marginally declined (-1%) but exports of finished products increased (+3%), as a result of a moderate increase for both flat and long products (+2% and +5%).

Throughout the entire year of 2023, exports of finished products fell (-3%), due to a decline in flat products (-9%) and despite an increase in long product exports (+10%).

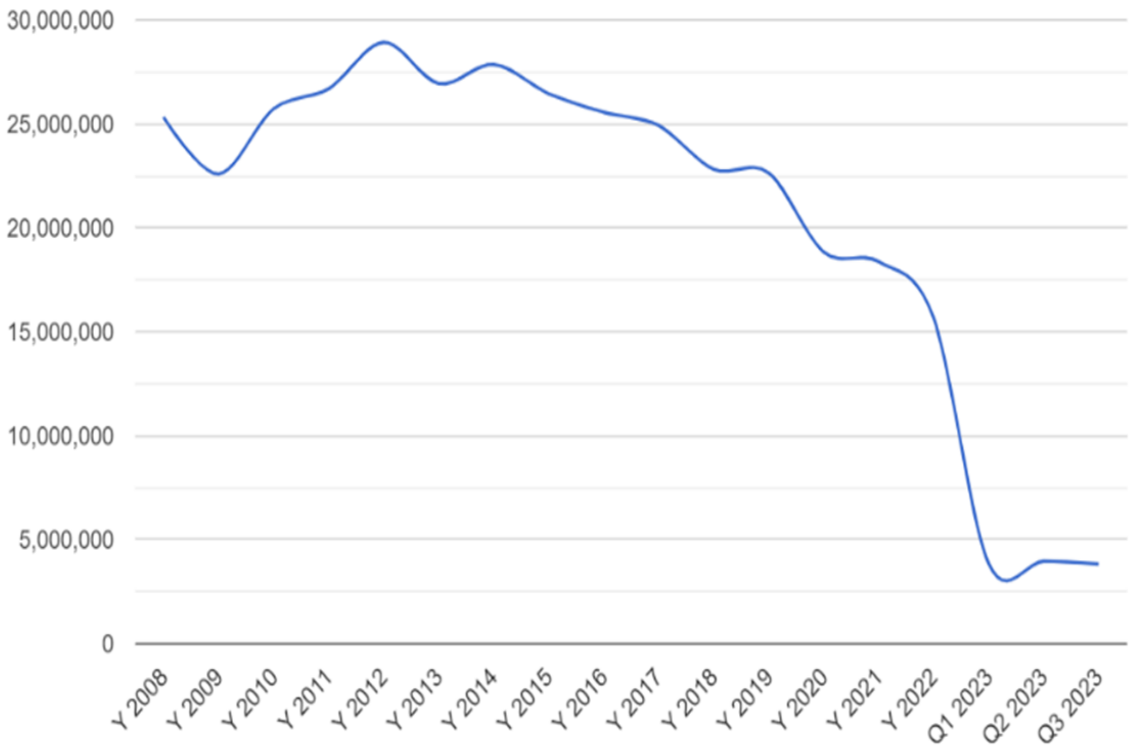
EU Total Steel Exports



Total Exports to third countries

Finished Steel Products

(metric: tonnes)



EXPORTS BY COUNTRY

During the first four months of 2024, the main destinations for EU steel exports were the United Kingdom, the United States, Turkey, Switzerland and Egypt, followed by China, the United Arab Emirates (UAE), Ukraine and Norway. The first five destinations together accounted for 55% of total EU finished product exports.

Among the major export destinations, exports of finished products continued to experience exceptional year-on-year increases to the UAE (+241%). Exports to Ukraine recorded flat developments, despite improved trade functioning amidst war-related disruptions. Exports of finished products also rose to the United States (+21%) China (+13%), India (+9%), Norway (+5%), the United Kingdom and Turkey (+1% each), whereas they declined to Switzerland (-10%) and Egypt (-8%).

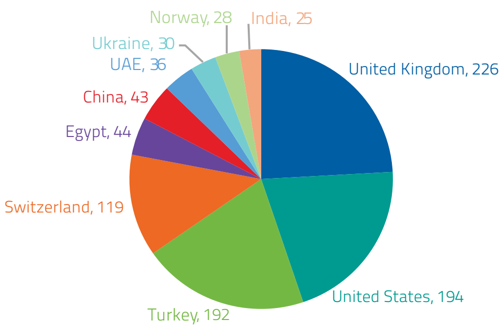
EXPORTS BY PRODUCT CATEGORY

In the first four months of 2024, exports of finished products increased (+3%) as a result of an equivalent increase both in flat and long product exports (+2% and +5%, respectively). During the same period, flat products accounted for 67% of finished product exports overall. In 2023, exports of finished products dropped (-3%), due to a decrease in exports of flat products (-9%) and an increase in exports of long products (+10%).

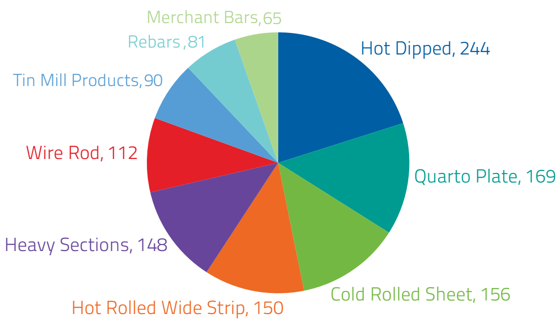
In the first four months of 2024, exports of all individual flat products rose compared to the same period of the previous year, with the exceptions of hot rolled wide strip (-14%), whereas exports of quarto plate increased (+16%) along with exports of cold rolled sheet (+10%), coated sheet (+6%) and hot dipped (+7%).

Exports of individual long products recorded diverging developments, as exports of rebars and heavy sections surged (+24% and +17%, respectively), whereas exports of merchant bars and wire rod fell (-12% and -8%, respectively).

EU Finished Steel Exports by Destination
4M-2024,
(monthly '000 metric: tonnes)



EU Finished Steel Exports by Product
4M-2024,
(monthly '000 metric: tonnes)



TRADE BALANCE

In the first four months of 2024, total trade deficit amounted to 1.4 million tonnes (1,372 kilotonnes). In 2023, the total trade deficit reached 1.3 million tonnes per month (1,347 kilotonnes) compared to 1.6 million tonnes (1,582 kilotonnes) in 2022.

As for finished products, the trade deficit of the first four months of 2024 was 775 kilotonnes per month. This resulted from the combination of a deficit of 809 kilotonnes per months for flat products and a surplus of 34 kilotonnes per month for long products.

In 2023, the deficit for finished products amounted to 790 kilotonnes per month, resulting from a deficit of 802 kilotonnes for flat products and a surplus of 13 kilotonnes for long products.

The largest trade deficits for finished products with individual trade partners during the first four months of 2024 were with India (298 kilotonnes per month), South Korea (218 kilotonnes), Taiwan (193 kilotonnes), Vietnam (184 kilotonnes), Japan (138 kilotonnes), Turkey (101 kilotonnes) and China (83 kilotonnes). The major destination countries for EU finished steel exports with a finished product trade surplus during the first two months of 2024 were the United States (191 kilotonnes per month), the United Kingdom (104 kilotonnes), Switzerland (76 kilotonnes), and the United Arab Emirates (32 kilotonnes).

THE EU STEEL MARKET: FINAL USE

OUTLOOK FOR STEEL-USING SECTORS

TOTAL ACTIVITY IN THE FIRST QUARTER OF 2024

In the first quarter of 2024, the Steel Weighted Industrial Production index (SWIP) markedly dropped (-1.9%) after the marginal increase (+0.5%) recorded in the previous quarter. Until 2023, EU steel-using sector's output had continued to grow, albeit slowing down, showing unexpected resilience despite the protracted impact of Russia's invasion of Ukraine, overall manufacturing weakness and global geopolitical tensions, along with above-average energy prices.

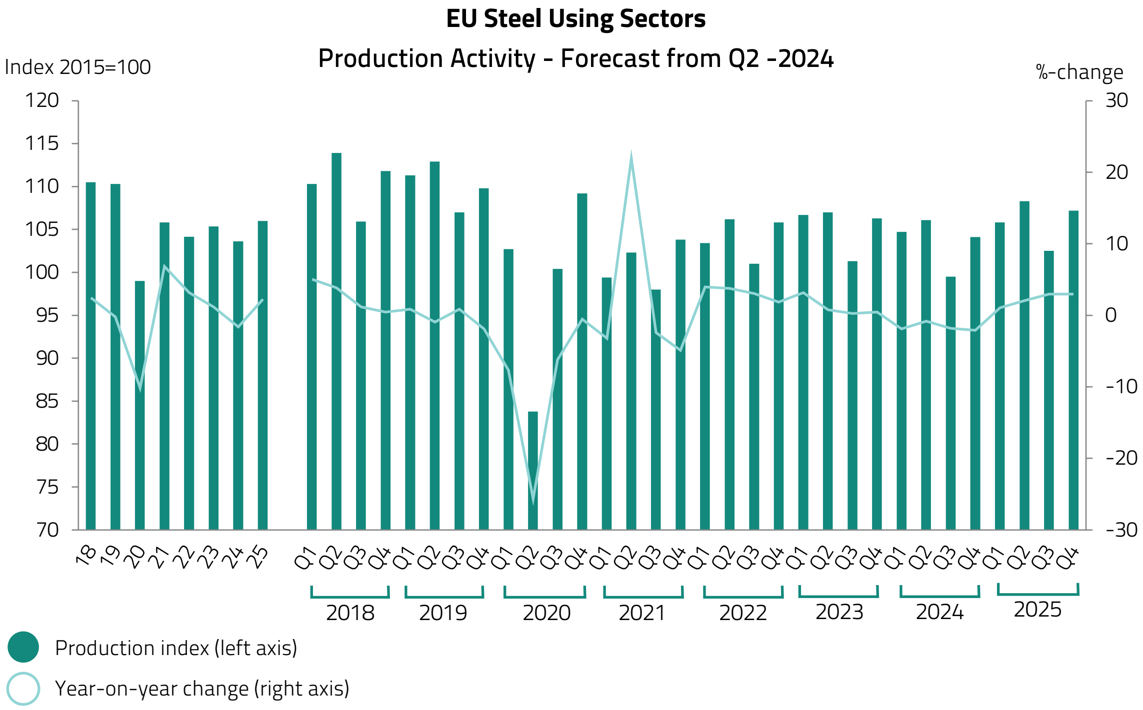
The latest developments of the SWIP index were a combination of a continued downturn in the construction, mechanical engineering, domestic appliances and metalware sectors, only partly compensated by the continued growth in automotive. The construction sector already entered recession in the third quarter of 2022 and saw its seventh consecutive quarterly drop (-2.3%, after -0.1% in the preceding quarter). Its recessionary trend is expected to continue throughout 2024. The positive trend in overall SWIP, started after the pandemic, continued up to the fourth quarter of 2023, in spite of soaring energy prices impacting production costs, component shortages and lower output that began to take their toll on total production activity in steel-using sectors in the second half of 2022. The deterioration of the economic and industrial outlook in the EU – particularly due to high inflation and the subsequent interest rate hike by the European Central Bank (ECB) – had only a limited impact on steel-using sectors' output up to the end of 2023. The construction sector, which accounts for 35% of steel consumption in the EU, was the only significant exception.

The ongoing economic uncertainty is set to continue taking its toll on growth also over the upcoming quarters. The year 2024 is expected to be characterised by unpredictability, stemming from energy price levels, continued weakness in steel demand, inflation and interest rate-driven economic challenges.

TOTAL FORECAST 2024-2025

Despite persisting downside factors, steel-using sectors' output continued to grow in 2023 (+1.2%), albeit with wide differences across individual European economies and sectors. However, SWIP resilience is expected to come to an end in 2024 as steel-using sectors' output growth is projected to drop (-1.6%, revised downwards from -1%), mainly due to the second recession in a row in the construction sector. A recovery is anticipated in 2025 (+2.3%).

Total steel-using sectors' output had increased more than expected (+3.2%) in 2022, following the rebound in 2021 (+6.9%) after the sharp decline recorded in 2020 (-10.3%) due to the impact of COVID-19.



Year-on-Year %-Change in EU Steel Weighted Industrial Production (SWIP) Index

	% Share in total consumption	**Year 2023**	Q1'24	Q2'24	Q3'24	Q4'24	**Year 2024**	Q1'25	Q2'25	Q3'25	Q4'25	**Year 2025**
Construction	35	**-0.8**	-2.3	-1.4	-1.3	-0.6	**-1.4**	0.9	1.6	2.4	2.3	**1.8**
Mechanical engineering	14	**2.6**	-3.1	-1.9	-1.5	-1.1	**-1.9**	1.5	2.0	2.3	2.8	**2.1**
Automotive	18	**8.7**	-0.9	-3.5	-4.0	-3.7	**-3.0**	1.2	2.0	3.8	3.3	**2.5**
Domestic Appliances	3	**-3.5**	-8.0	-1.0	-0.7	-0.7	**2.7**	5.5	6.2	6.6	6.5	**6.2**
Other Transport	2	**9.3**	1.6	9.6	0.0	3.0	**3.5**	3.3	2.1	3.8	5.3	**3.6**
Tubes	13	**-1.5**	-3.8	-1.1	-1.9	-1.4	**-2.0**	-1.7	0.8	2.8	1.6	**0.8**
Metal Goods	14	**-3.9**	-3.4	0.8	-2.4	-1.5	**-1.6**	2.2	2.2	2.7	3.9	**1.7**
Miscellaneous	2	**2.5**	1.0	0.0	-3.1	-3.5	**-1.4**	0.4	3.1	5.5	5.4	**3.6**
Total	100	**1.2**	-1.9	-0.8	-1.8	-2.1	**-1.6**	1.1	2.1	3.0	3.0	**2.3**

CONSTRUCTION INDUSTRY

ACTIVITY IN THE FIRST QUARTER OF 2024

The increase in construction material prices, coupled with labour shortages in certain EU countries, growing economic uncertainty and, notably, and the rise in interest rates due to monetary policy tightening, impacted construction output for the seventh consecutive quarter (-2.3% in the first quarter of 2024, after -0.1% in the fourth quarter of 2023). This negative trend is expected to persist throughout 2024, mainly due to the delayed impact of high interest rates – which are set to remain elevated despite an initial ECB cut and potential further monetary policy easing during the year - and subsequent higher mortgage rates affecting housing demand.

In line with real production volumes, the recession in the sector has been confirmed also by the latest quarterly developments in investment in construction, which dropped in the first quarter of 2024 (-1.2%) after a marginal rise (+0.3%) in the preceding quarter.

As expected, residential investment dropped for the sixth consecutive quarter, hit by rising mortgage interest rates (-1.8%, after -2.1% in the fourth quarter of 2023), resulting from monetary policy tightening by the ECB to curb inflation. Conversely, more positive developments were seen in recent quarters in 'other construction' investment, particularly in civil engineering, that have proven resilient in the current construction downturn but could not offset the fall in residential investment; however, this construction subsegment also recorded a drop (-0.6%) after eighth consecutive quarterly increases. Expansion in public construction is projected to continue during 2024, but at a much slower pace due to lower public expenditure in construction.

FORECAST 2024-2025

Governments have been using public construction spending as a countercyclical tool since the COVID-led recession of 2020 to bolster recovery. However, while overall construction activity is expected to continue benefitting to a limited extent from governmental housing support and public construction schemes, the impact of these publicly-funded construction schemes is expected to significantly decrease in 2024 due to multiple downside factors, including the shortage of construction materials, their rising prices as well as reduced fiscal room for construction spending in EU countries. These issues have resulted in declining construction confidence as confirmed by latest available data (May 2024).

Looking at construction sub-sectors, rise in interest rates – as a consequence of policy rate hikes by the ECB and other central banks – has already impacted residential construction demand. Civil engineering is expected to continue providing the strongest contribution to the construction sector's performance, but to a lower extent. This segment will continue to be supported by EU-wide public policies (NextGenerationEU, etc.), but their effects have become increasingly uncertain and difficult to quantify due to the recent deterioration of the economic outlook. The suspension of the Stability and Growth Pact was extended until the end of 2023, which leaving room for government spending in infrastructure. However, the visible effects in terms of construction output related to these projects will be lagged over time.

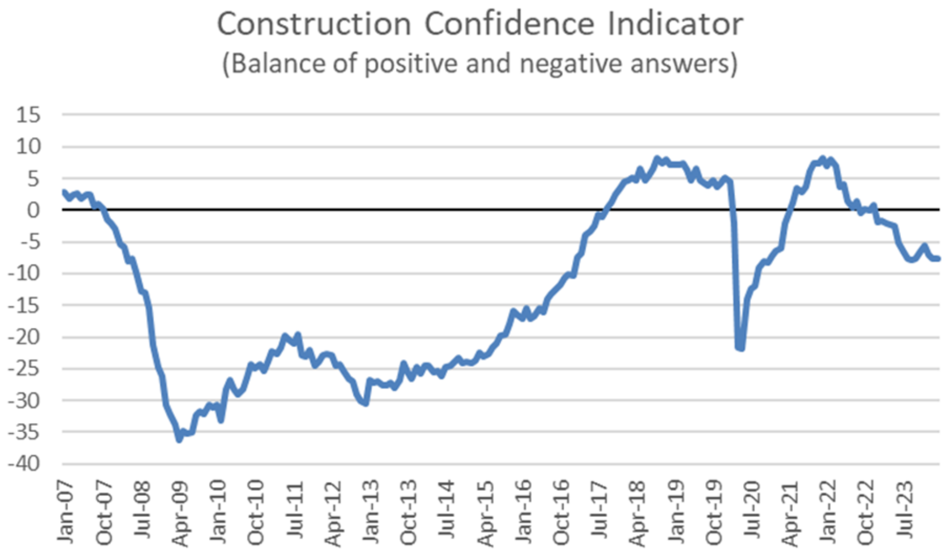
As regards the private non-residential construction subsector (offices, commercial buildings, etc.), the subdued business investment outlook continue to remain unfavourable to investment in non-residential projects in the near future.

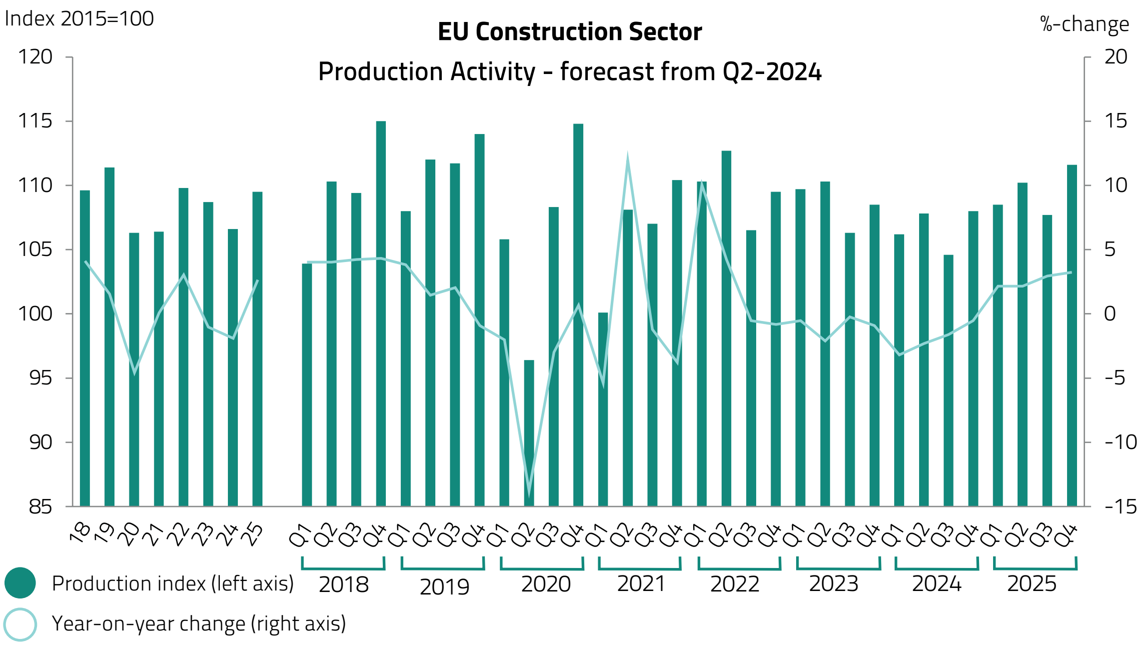
As a result, the construction sector underwent recession in 2023 (-0.8%) and is expected to see a similar trend in 2024, with a slightly more pronounced decline than previously forecasted (-1.4%, revised from -1%). The sector is anticipated to recover in 2025, (+1.8%, revised downwards from +2.7%), primarily due to the projected impact of monetary easing.

PAST TRENDS

The positive trend in construction output observed since the fourth quarter of 2020 (eight consecutive quarters of growth) came to an end already in the third quarter of 2022 (-0.6%) and the downturn has continued since, as reflected in the data of the last two quarters (drops in output of -2.3% and -0.1%, respectively). The sector had experienced a vigorous rebound in 2021 (+6.3%), largely boosted by generous governmental support schemes at EU and national level benefitting the private residential and civil engineering sub-sectors, after the decline in 2020 (-4.8%) due to the pandemic.

Construction confidence in the EU had substantially improved since the lows seen in mid-2020 due to the pandemic, almost reaching 2018 levels in the course of 2021. However, issues all along the supply chain and the overall deterioration of the economic and industrial outlook have been impacting the sector since February 2022. The private non-residential construction subsector (offices, commercial buildings, etc.) has continued to pay the highest toll to the pandemic in 2020 and partly in 2021, with increasing vacancy rates, and has only partially recovered since then.





AUTOMOTIVE INDUSTRY

ACTIVITY IN THE FIRST QUARTER OF 2024

In the first quarter of 2024, the automotive sector's output decreased for the first time after seven consecutive quarterly increases (-0.9%, following +3.1% in the previous quarter). This positive cycle had been ongoing since the second quarter of 2022, partly due to comparisons with the very low output volumes experienced in 2021 and 2022.

However, output in the sector has always remained well below the levels seen before the pandemic and even below those seen before the pre-COVID recession in 2019. Consumer resilience – despite subdued disposable income growth and uncertainty over Electric Vehicles (EVs) implementation – has somewhat fuelled demand over the previous seven quarters, leading to a rebound in the sector's output from second half of 2022 to the end of 2023.

EU PASSENGER CAR VEHICLE DEMAND

Despite supply chain issues causing order delays, war-related disruptions, low consumer confidence and squeezed incomes due to persistent inflation and economic uncertainty, there has been a consistent improvement in demand throughout 2023, continuing into the first five months of 2024.

However, in May 2024, car registrations in the European Union decreased (-3%), with declines observed in three of the region's four major markets: Italy (-6.6%), Germany (-4.3%), and France (-2.9%). Conversely, Spain saw a modest increase (+3.4%). Despite the downturn in May, year-to-date car registrations over the first five months of 2024 increased to 4.6 million units (+4.6%). The bloc's largest markets showed a similar performance, with Spain (+6.8%), Germany (+5.2%), France (+4.9%), and Italy (+3.4%) all recording growth so far this year.

In May 2024, battery-electric cars accounted for 12.5% of the EU car market, showing a decrease from 13.8% recorded a year ago. Meanwhile, hybrid-electrics continued to gain market share, growing from 25% to nearly 30%. The combined share of petrol and diesel cars now represent only half of the market, falling to 48.5% from 52.1%.

FORECAST 2024-2025

In 2023, despite the overall subdued investment outlook, automotive output rebounded more robustly than expected (+8.7%). However, output levels have remained relatively low in historical terms, far below the levels seen in 2018 and 2019. Due to the protracted weakness of the manufacturing sector, overall EV standards uncertainty and lacklustre consumer confidence, the sector is projected to experience a heavier contraction in output in 2024 than previously estimated (-3% vs. -0.4%). More robust growth is forecasted in 2025 (+2.3%, revised upwards from +0.8%).

Demand is projected to remain weak until the macroeconomic picture and consumer disposable income substantially improve. This has now become less likely given the worsening economic outlook and more subdued economic growth perspectives. However, demand has shown resilience. Uncertainties around the implementation of EVs and delays in the launch of new models - many are hybrid or fully electric, preparing the ground for the ban of petrol cars by 2035 – have proven unsupportive factors of consumer demand. Coupled with the lack of facilities such as recharging points, they have also delayed investment decisions by carmakers.

Full recovery in global trade and external demand from major markets such as the United States - where the IRA is expected to boost production of EVs in the US -, China and Turkey will remain a key factor for EU car exporters. In the longer-term, political commitment at EU level towards the full adoption of EVs by 2035 should prove somewhat supportive, despite the fact that general car demand appears to be dependent on fragile consumer confidence throughout 2024.

PAST TRENDS

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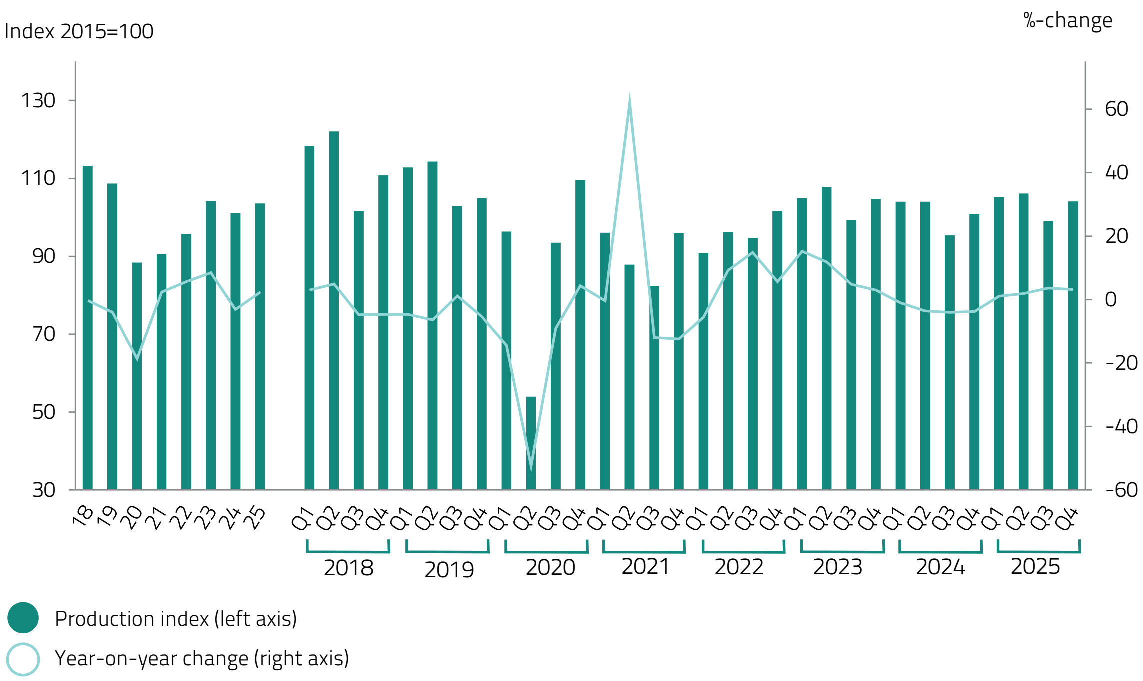
EU Automotive Sector
Production Activity - forecast from Q2-2024



MECHANICAL ENGINEERING

ACTIVITY IN THE FIRST QUARTER OF 2024

In the first quarter of 2024, output in the mechanical engineering sector fell for the second consecutive quarter (-3.1%, after -1.9%), after ten consecutive quarterly increases (+0.4% in the preceding quarter). Driven by the post-COVID industrial recovery, the rebound seen in previous quarters during 2022 and 2023 had brought output back to absolute high levels, even above those recorded before 2019.

However, the sector's growth had remained exposed to ongoing downside risks, including the prolonged impact of Russia's invasion of Ukraine, increasing global geopolitical tensions and the continued deterioration of the economic and industrial outlook, as observed throughout 2023. Consequently, the sector's output is anticipated to shrink also throughout 2024, with a projected return to positive territory only in the first half of 2025.

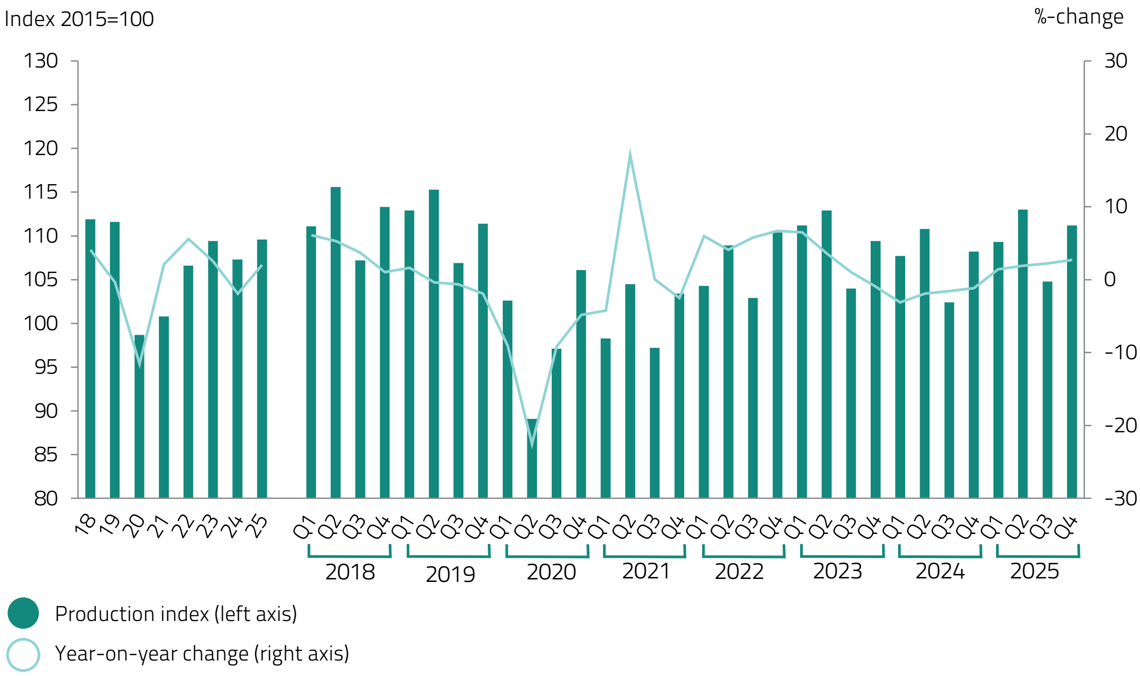
FORECAST 2024-2025

Mechanical engineering output increased at a faster-than-expected rate in 2023 (+2.6%, previously +1.8%). Despite some expected improvements in the economy and industry in second half of 2024, the sector is anticipated to experience a drop in output in 2024 (-1.9%, revised downwards from -1.1%), before recovering in 2025 (+2.1%).

PAST TRENDS

In 2022, the sector grew robustly (+5.7%) thanks to a positive performance in the first half of the year, despite the impact of war-related disruptions and a severe energy shock. It followed a more robust rebound (+14.3%) in 2021 after the sharp decline (-11.8%) in 2020 due to the pandemic. Mechanical engineering output had already experienced a small drop (-0.3%) in 2019, due to global trade tensions and a downturn in the manufacturing sectors.

EU Mechanical Engineering Sector
Production Activity - forecast from Q2-2024



STEEL TUBE INDUSTRY

ACTIVITY IN THE FIRST QUARTER OF 2024

In the first quarter of 2024, output in the steel tube sector dropped (-3.8%, after +1% in the preceding quarter). The positive trend in the sector driven by the post-pandemic recovery in 2021 was abruptly interrupted by war-related disruptions and supply chain issues in the second half of 2022. The energy crisis has also considerably affected the sector, including for pipeline project developments in the EU.

FORECAST 2024-2025

In 2023, output in the EU steel tube sector experienced a milder-than-projected drop (-1.5%, marginally revised from -1.6%), which is expected to be followed by another, more severe drop (-2%) in 2024, and by moderate growth in 2025 (+0.8%). In the longer term, demand for large welded tubes from the oil and gas sector is not expected to improve substantially as the EU has accelerated its transition towards LNG shipping for its energy needs, thereby reducing its reliance on gas transported via pipelines.

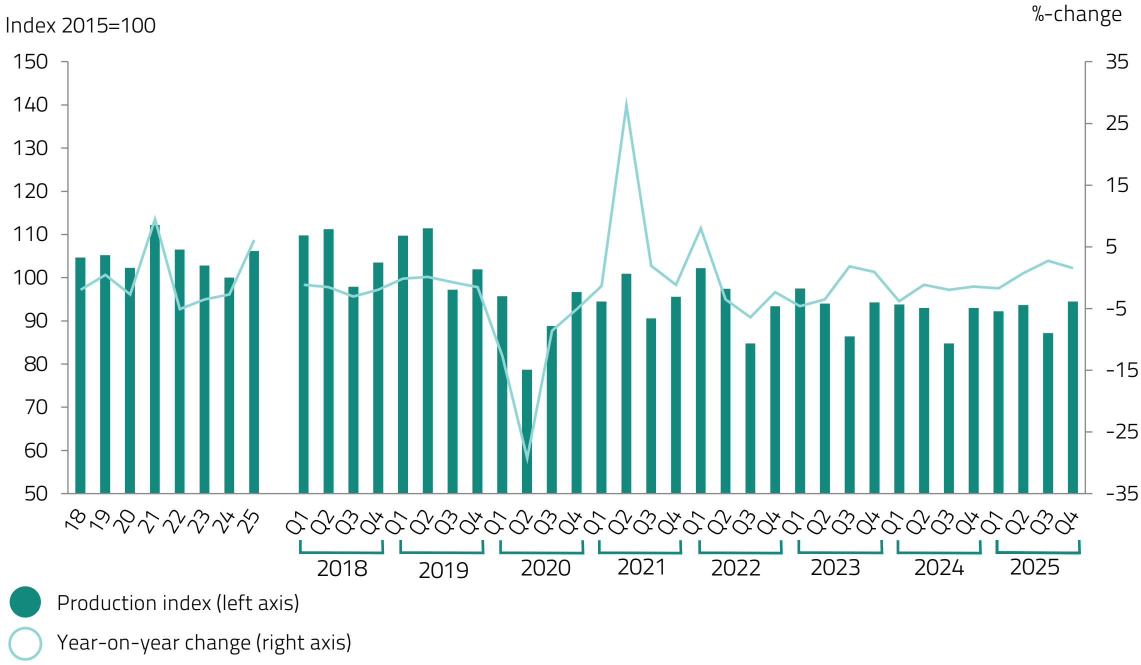
On one hand, global oil demand is not expected to boost the launch or the implementation of new pipelines in the short-term, due to high geopolitical uncertainty and a poor global economic outlook. Oil demand is expected to keep declining throughout the rest of 2024 in the EU, aligning with low economic growth expectations. On the other hand, demand from the construction sector is also set to ease and thus provide a modest contribution to growth in output, whereas tube demand from the automotive and engineering sectors is forecast to remain relatively stronger.

PAST TRENDS

In 2022 the sector's output dropped moderately (-1%), after the rebound seen in 2021 (+6%). In 2020, output in the EU steel tube industry was heavily impacted by the industrial shutdown due to the pandemic. Likewise for other steel-using sectors, the rebound seen during 2021 eased considerably throughout 2022 as a result of severe global supply chain issues and the disruptions linked to Russia's war in Ukraine. These factors have further delayed ongoing projects and impacted the availability of materials.

Steel Tubes

Production Activity - forecast from Q2-2024



ELECTRIC DOMESTIC APPLIANCES

ACTIVITY IN THE FIRST QUARTER OF 2024

In the first quarter of 2024, the electrical domestic appliances dropped (-8%), after recording flat developments in the preceding quarter. These figures are in line with the declining trend observed since the second quarter of 2021, which marked the end of a bigger-than-expected post-COVID recovery in output.

This negative trend is expected to continue before reversing only in the first quarter of 2025.

FORECAST 2024-2025

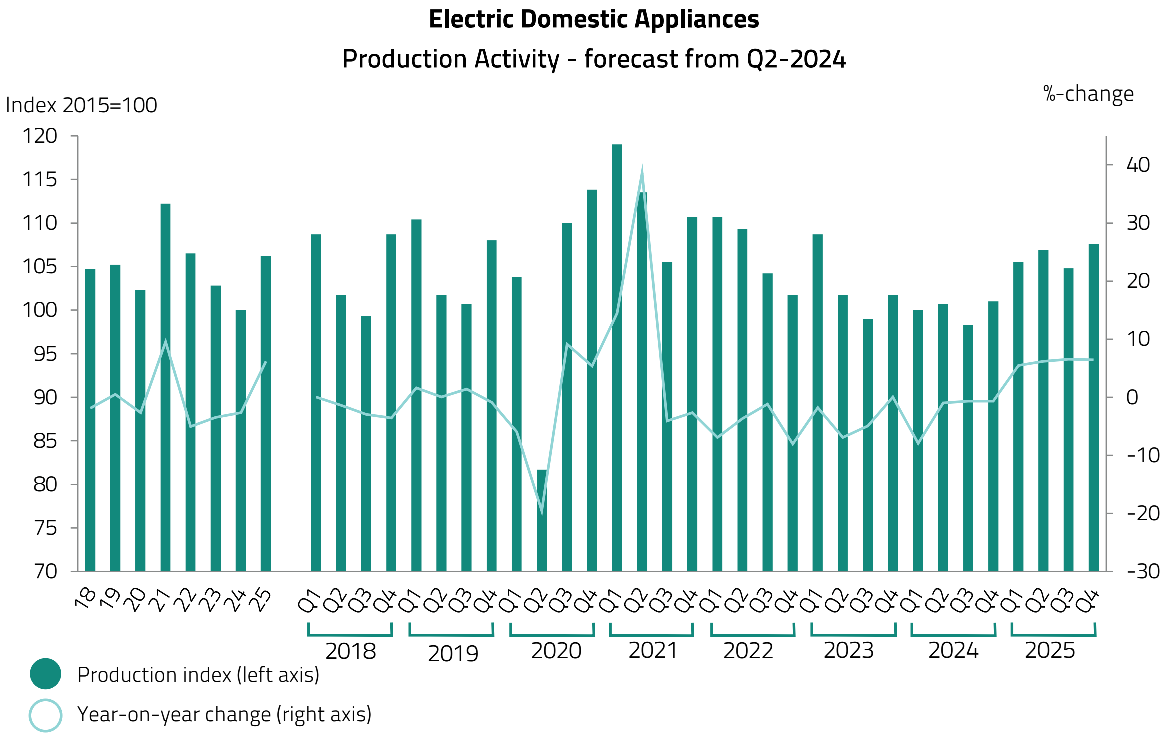
Output in the domestic appliances sector recorded two consecutive recessions in 2022 (-5.1%) and 2023 (-3.5%, revised upwards from -4.7%), and is expected to experience a third one in 2024 (-2.7%). Recovery is foreseen in 2025 (+6.2%).

Growth in output is expected only from the first quarter of 2025, due to the prolonged weakness of the manufacturing sectors and subdued economic outlook that has continued to hinder industrial activity and impact consumer demand.

However, some supportive factors will partly offset these downside factors, and continue providing some incentives to growth. Remote working will remain widely practiced across the EU in the next years, albeit to a much lesser extent than during the pandemic. In the longer term, developments linked to the so-called 'Internet of Things' (smart applications that enable the connection of home appliances and devices) should also benefit the sector, although their impact is not likely to be visible before 2025.

PAST TRENDS

Widespread remote working across the EU boosted demand for home appliances and other related goods over the second half of 2020 and the first half of 2021, but afterwards the sector cycle has considerably eased. This was due to multiple downside factors such as gradual return to offices after the pandemic, supply chain issues, rising energy costs, the war in Ukraine and the deterioration in the EU industrial outlook that has been seen since the first half of 2023.



EU ECONOMIC OUTLOOK 2024-2025

GDP GROWTH

Thanks to a higher-than-expected resilience of the economy and a positive, albeit declining, contribution from the services sector, the EU economy avoided recession in 2023. However, growth was much lower than in 2022 (+0.6% vs. +3.4%). This resulted from multiple downside factors, namely high inflation (albeit on a downwards path throughout 2023) and subsequent monetary tightening, war-related uncertainty and geopolitical tensions, high energy and commodity prices, all factors weighing on business investment. EUROFER's GDP forecasts for the EU in 2024 has slightly improved compared to the previous outlook (+1% from +0.9%), and sees some acceleration in economic growth in 2025 (+1.7%), in line with the latest European Commission's Economic Forecast. However, overall economic uncertainty still lingers for 2024. EU economic growth is expected to gain some ground during the year, but downside risks remain: the continued war in Ukraine, persistently high inflation and interest rates, and serious geopolitical tensions in the Middle East are likely to weigh further on economic confidence and also on energy prices. A so-called 'soft landing', which is a combination of lower inflation without economic recession, has materialised both in 2023 and 2024, despite large recessionary expectations. Although low economic growth has persisted, labour markets in the EU have continued to prove resilient and, in some Member States, wage and salary growth has exceeded the inflation rate. Consequently, the unemployment rate has remained around low historical levels (6% in May 2024), notwithstanding considerable variations across EU countries.

The impact of the above downside factors has proven asymmetrical across EU individual economies. Germany has experienced a mild recession in 2023 (-0.3%), mostly due to the weakness of its manufacturing sector, and is expected to recover moderately in 2024 (+0.3%). Austria, Sweden, Czech Republic and Hungary also faced recession in 2023 (-0.8%, -0.2%, -0.5% and -0.5% respectively), before experiencing recovery in 2024. As for France and Italy, real GDP growth in 2023 was above the EU average (+0.9% for both), and their economies are set to grow also in 2024, albeit at a lower rate (+0.5% and +0.6%, respectively). Spain recorded a more pronounced GDP growth than the EU average in 2023 (+2.5%) and is expected to replicate in 2024 (+ 2%).

The latest IMF World Economic Outlook (July 2024) forecasts global GDP growth of +3.2% in 2024 and +3.3% in 2025, broadly unchanged compared to its previous outlook, with +0.9% and +1.5% in the euro area for 2024 and 2025, respectively. As regards Germany, the IMF predicts a GDP growth recovery of +0.2% in 2024 and of +1.3% in 2025. The OECD, in its latest Interim Outlook (May 2024), estimates euro area GDP growth to be +0.7% in 2024 and +1.7% in 2025, slightly upgraded compared to the previous outlook. It also forecasts very moderate recovery for Germany both in 2024 (+0.2%) and in 2025 (+1.1%).

Throughout 2023, domestic demand, particularly private consumption, provided modest contribution to GDP growth, given persistently high inflation that reduced household disposable income. This has been partially offset by the significant amount of savings that households were able to cumulate during the pandemic. As in 2022 and 2023, services are expected to continue to provide the primary contribution to GDP growth, whereas manufacturing is expected to remain weak, contrary to the post-pandemic rebound experienced in 2021 and up to the first quarter of 2022.

MAJOR EU ECONOMIES

In the first quarter of 2024, the EU economy showed some progress compared to the weakness seen in the fourth quarter of 2023, with a +0.3% quarter-on-quarter increase following flat growth in the preceding quarter. On a year-on-year basis, the EU's real GDP growth was +0.4%, after a minimal +0.2% in the fourth quarter of 2023.

Germany avoided technical recession between the fourth quarter of 2023 and the first quarter of 2024 (-0.5% and +0.2% quarter-on-quarter, respectively), but its economy has continued to pay the toll to monetary policy tightening, uncertainty over energy prices and rising global tensions affecting its manufacturing sector, especially the automotive industry.

Other major euro area economies had diverging developments. Spain achieved positive GDP growth (+0.7% quarter-on-quarter, and +2.4% year-on-year). Italy, whose manufacturing sector is deeply integrated with the German one, saw its real GDP gain some ground (+0.3%) quarter-on-quarter (+0.1% in the preceding quarter), resulting in a +0.6% growth year-on-year. France has entered a phase of weak growth as its real GDP grew by a mere +0.2% in the first quarter of 2024 after +0.1% in the preceding quarter, albeit resulting in year-on-year growth (+1.1%). In line with the latest leading indicators, which continue to signal weakness in the manufacturing sector (see confidence indicators on page 26), it appears very unlikely that EU economies will see growth gaining speed before the second quarter of 2024, as the economic outlook remains very uncertain with a fragile growth conditional upon several downside factors.

ENERGY PRICES

Throughout 2023, energy prices have continued to decrease from the all-time peaks seen in July 2022. The TTF Natural Gas Price Index went from peaking at € 342 per MW/h in August 2022 - which was 20 times the average value observed in 2021 – to a current value of around € 32 per MW/h in July 2024. The reasons behind these developments include a lower gas demand outlook due to the economic slowdown, a relatively mild winter, the EU's price cap, a higher consumption of wind and other renewables during 2023, and a rather successful transition from Russian pipeline gas to shipborne liquefied natural gas (LNG) from other suppliers. On the other hand, the ongoing war in Ukraine, turmoil in the Middle East and global geopolitical tensions could push future increases in oil prices, as seen already in recent weeks (around their highs since October 2023) despite expectations of low global demand. Such a scenario could hinder economic growth. Potential new disruptions along the global supply chain could however still materialise and impact overall costs for industries and business as well.

INFLATION

Inflation became a primary concern, reaching highs unseen since 1985 in the EU in October 2022 and peaking at 11.5%. However, it has eased considerably since then. Data from May 2024 confirm this downward trend, with inflation at 2.7%, albeit slightly higher than in April (2.6%). In May 2024, inflation accelerated to 2.8% in Germany (from 2.4% in April), to 2.7% in France (from 2.4%), and to 3.8% in Spain (from 3.4%), but slowed down to 0.8% (from 0.9%) in Italy.

Although energy prices have decreased considerably (from +41% in June 2022 to -0.5% in April 2024), core inflation has slowed down at a lower rate than the overall price index, from 6.6% in March 2023 to 3.2% in May 2024. This points once again to the fact that inflationary developments continue to be driven more by endogenous factors than by external ones. Prices are expected to see more moderate developments also in 2024, despite potential inflation-igniting factors still on the background. EUROFER estimates an inflation rate of 3% in 2024 and 2.6% in 2025 (the European Commission's May 2024 forecast predicts 2.7% and 2.2%, respectively), thus remaining above the 2% ECB inflation.

MONETARY POLICY

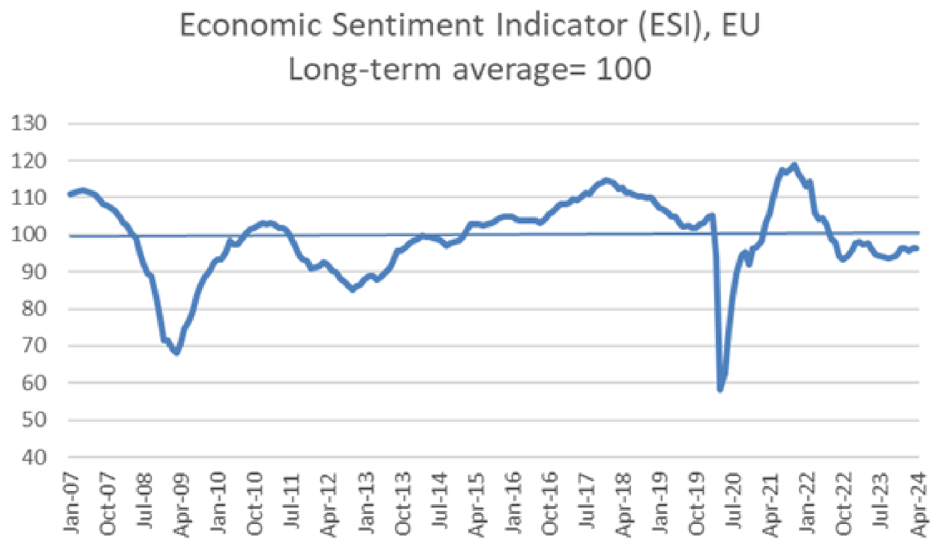
Due to the highest inflation rate over the last 35 years, central banks in advanced economies were bound to quickly reverse their hyper-expansionary monetary policy stance. The ECB has raised its policy rate from zero up to 4.50% since July 2022, with the last hike in September 2023. This has inevitably reduced the room for supportive fiscal policies, in particular government spending by EU member states, as borrowing costs will be higher, especially for highly-indebted economies. As largely expected, the ECB implemented a 25 basis points cut on 6 June, bringing its policy rate to 4.25%. Further reductions may be considered throughout 2024 depending on price developments, which remain largely unpredictable.

CONFIDENCE AND LEADING INDICATORS

ECONOMIC SENTIMENT INDICATOR (ESI)

Overall economic confidence in the EU, measured by the Economic Sentiment Indicator (ESI), has been on a downward path since early 2022 due to widespread concerns over war-related issues, high inflation and deteriorating economic outlook. It hit a 10-month low in July 2022 (92.6, the lowest level since October 2013), and later rose up to 96.2 in April 2024. However, it has consistently lingered near the lowest levels observed since the second half of 2013.

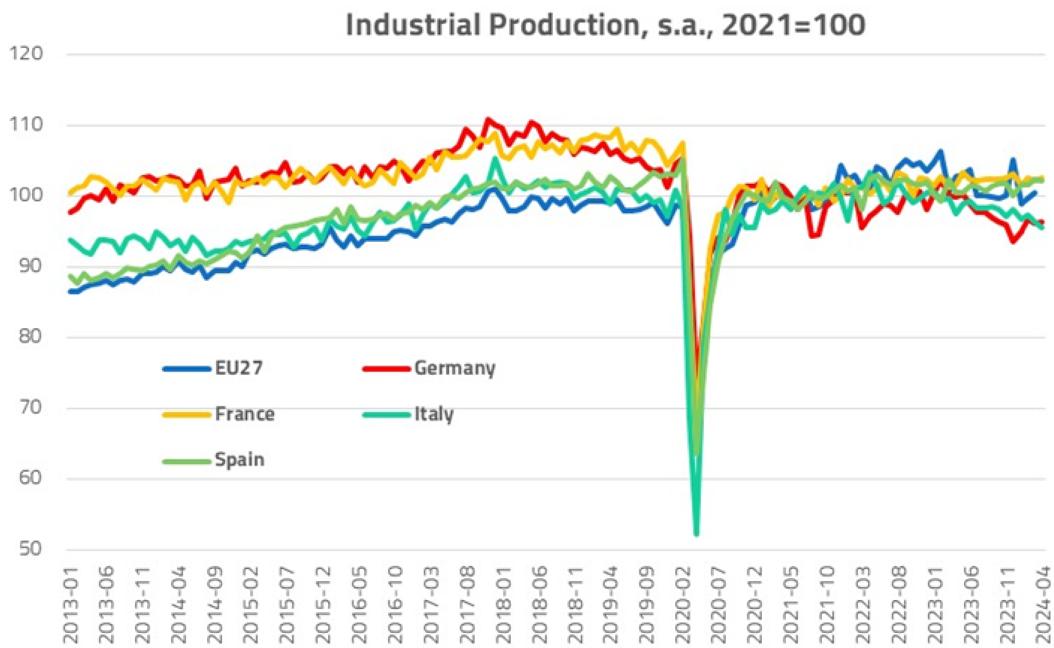
The recent improvement in the HCOB manufacturing PMI Index for the euro area was reversed in June 2024. It fell to 46.0 from 49.3 in May, as production decreased at a marked pace, the steepest since the end of 2023. Manufacturing output has now declined for 15 consecutive months, signalling the prolonged weakness of the EU manufacturing sector.



GLOBAL SUPPLY CHAIN PRESSURE INDEX (GSCPI)

In the first five months of 2024, global supply chain conditions, which largely affect trade and transportation costs, have continued to reflect softening global demand and uncertain economic growth. The Global Supply Chain Pressure Index (GSCPI), which had peaked to 4.35 in July 2021 due to global supply chain disruptions, increased to -0.48 points in May from -0.92 points in April of 2024. Concerns about accessibility for freights in the Red Sea and Persian Gulf due to geopolitical tensions in the Middle East had little impact.

The global Supply Chain Pressure Index globally had reached an all-time high of 4.36 points in December 2021 and a record low of -1.56 points in May 2023.



EU INDUSTRIAL PRODUCTION

EU industrial production plunged throughout 2023, after showing unexpected resilience in 2022. This trend continued up to the first quarter of 2024, resulting in a year-on-year drop (-4%, after -2.6% in the previous quarter). Among major EU economies, France and Spain saw growth in manufacturing output (+0.3% and +1.5%, respectively) in the first quarter of 2024. In contrast, Germany experienced a deepening industrial recession (-5.2%, following -4.4% in the fourth quarter of 2023). Italy also recorded another decrease (-3.1%, after -2% in the preceding quarter).

The latest available monthly data (up to April 2024) indicates that output levels are still decreasing and remain below the all-time highs recorded before the pandemic in some major EU economies. Industrial output in Italy and Spain has returned back to pre-pandemic levels, but this is not yet the case for France, and notably for Germany. Industrial output is expected to remain affected by a combination of factors. These include the uncertainty associated with ongoing conflicts and geopolitical tensions, such as the situation in Ukraine and, more recently, in the Middle East, high inflation and higher interest rates, as well as future developments in energy prices, which are still not entirely predictable.

The EU experienced a pronounced drop in industrial production (-8.1%) in 2020, followed by a vigorous rebound in 2021 (+8.2%), and achieved modest but resilient growth in 2022 (+1.9%). However, in 2023 industrial output dropped (-1.4%) due to continued downside factors, especially high production costs and overall manufacturing weakness. Subsequently, another drop, albeit moderate, is expected for 2024 (-0.3%, revised downwards from a marginal increase of +0.2%), before gaining some ground (+3.2%) in 2025.

EUROFER Macroeconomic data, EU

Annual % change, unless otherwise indicated

	2021	2022	2023	2024	2025
GDP	5.7	3.4	0.6	1.0	1.7
Private Consumption	4.3	3.9	0.6	1.3	2.1
Government Consumption	4.7	1.5	1.1	1.1	0.9
Investment	7.2	2.2	1.1	1.5	2.4
Investment in mach. equip.	7.8	2.7	4.0	1.7	2.3
Investment in construction	7.2	1.8	0.0	-1.1	0.5
Exports	2.5	8.8	6.6	3.0	2.6
Imports	11.4	8.4	0.3	1.7	3.3
Unemployment rate (level)	7.2	6.4	6.3	6.7	6.5
Inflation	2.5	8.8	6.6	3.0	2.6
Industrial Production	8.4	1.9	-1.4	-0.3	3.2

GLOSSARY OF TERMS

SECTOR DEFINITIONS ACCORDING TO NACE REV.2

BUILDING AND CIVIL ENGINEERING

41 Construction of buildings

42 Civil engineering

43 Specialised construction activities

25.1 Manufacture of metal structures and parts 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

25.3 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, electricity distribution and control apparatus excluding 27.1 and 27.5

EU STEEL MARKET DEFINITIONS

SWIP: abbreviation for Steel Weighted Industrial Production index. It is 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: Real consumption is the use of all steel products used by steel-using sectors in their production processes, also referred to as the 'final use' of steel products, adjusted for the stock cycle.

Apparent steel consumption: Apparent consumption is also referred to as 'steel demand'. It is total deliveries of all steel products and qualities by EU producers plus imports less 'receipts' into the EU, minus exports to third countries. In other words, apparent consumption is deliveries by EU producers plus imports minus receipts (that is, imports by EU producers themselves of material that is further processed), minus exports to third countries. EUROFER's definition of apparent consumption includes all qualities, including stainless, and all finished products and semi-finished products.

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.

Steel industry receipts: In both the apparent consumption and market supply statistics, the imports component of the calculation is written, in the EUROFER definition, as 'imports less receipts'.

The 'receipts' in this instance mean imports by EU producers themselves of finished or semi-finished steel products that are further processed by the producer and transformed into other products. In the publicly available EUROFER figures, only finished products are shown and thus impacted by the receipts calculation.

This correction is important because it prevents double-counting that would artificially inflate the size of the market. If an EU producer imports a tonne of hot rolled strip that it further processes into a tonne of cold rolled which it then delivers to the EU market - in an uncorrected calculation the import of one tonne would then become one imported tonne plus one EU-processed and delivered tonne. The imported tonne is thus corrected out in the import side of the market supply and apparent consumption figures.

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)

EUROFER AISBL is located in Brussels and was founded in 1976. It represents the entirety of steel production in the European Union. EUROFER full members are steel companies and national steel federations throughout the EU. The major steel companies and national steel federations of Turkey, Ukraine and the United Kingdom are also members.

The European Steel Association is recorded in the EU transparency register: 93038071152-83.
VAT: BE0675653894. The RLE or RPM is Brussels.

ABOUT THE EUROPEAN STEEL INDUSTRY

The European steel industry is a world leader in innovation and environmental sustainability. It has a turnover of around €191 billion and directly employs 303,000 highly-skilled people, producing on average 140 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.

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