EUROFER
The European Steel Association

ECONOMIC REPORT

ECONOMIC AND STEEL MARKET OUTLOOK 2019-2020

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INTRODUCTION

The EU28 steel market is estimated to have risen by 2.6% in 2018. The increase in steel demand predominantly benefitted third country suppliers owing to a rise of 12.3% in imports whereas domestic producers hardly gained from the growth in domestic steel demand given the meagre 0.6% increase in their deliveries to the EU28 market.

The sharp year-on-year increase in imports in the second half of the year clearly illustrates that in spite of the preliminary safeguard measures imposed by the EU Commission in July 2018 the EU market was besieged by imports. This shows that market access to other regions was blocked more effectively by protectionist measures in those places, thereby leading to a continued diversion of steel to the EU market.

EU STEEL MARKET OVERVIEW

EU28 apparent steel consumption grew by 2.6% year-on-year in the third quarter of 2018 and amounted to 38 million tonnes. Quarterly apparent steel consumption had, on average, been around 43 million in the first half of the year. Lower consumption in the third quarter can be explained from the usual seasonal slowdown in manufacturing and construction activity and some destocking in the supply chain.

Estimates for the fourth quarter of 2018 show a further deceleration in year-on-year growth in apparent steel consumption and again a lower quarterly volume as a result of seasonal destocking in the final quarter of the year.

EU steel market fundamentals are expected to remain moderately positive. Nevertheless, apparent steel consumption growth is forecast to slow down to only 0.5% in 2019 followed by 1.2% in 2020, less than one-third of the compound annual growth rate of apparent steel consumption over the period 2014-2018. This very modest growth scenario in combination with a global steel market that is suffering from overcapacity, slowing demand – and as a consequence a flurry of protectionist measures – has the potential to develop into a major threat for EU market stability over the forecast period. The proposed relaxation of the safeguard measures appears to be over-proportionate and entails the risk of undermining the effectiveness of the mechanism.

EU STEEL-USING SECTORS

Having grown at rather vigorous quarterly rates in 2017 and the first half of 2018, production growth in the EU steel-using sectors slowed down in the third quarter of 2018. The growth moderation was particularly evident in the automotive sector. In contrast, the only large steel-using sector that did not witness a growth deceleration was the construction industry. Total output growth in the EU's steel-using sectors is estimated to have amounted to 3.1% in 2018.

The growth trend in production activity over 2018 confirms that the EU steel-using sectors have entered the late stage of the current business cycle. This implies that while economic fundamentals will remain mildly positive, actual growth rates of production activity will slow down in 2019 and 2020. Output in the EU's steel-using sectors is forecast to grow by 1.5% in 2019 and by 1.7% in 2020. The greatest risks stem from a global economic context which has become more uncertain due to rising extra-EU protectionism, potentially leading to a further escalation of trade tensions between the US and its trading partners. This could have a negative impact on confidence and investment, as well as exports.

EU ECONOMIC CONTEXT

The EU economy slowed considerably in the third quarter of 2018, recording its weakest growth performance in four years. GDP data and forward-looking indicators appear to suggest that the EU economy has entered the late-cycle phase of the rebound that started in 2014. Economic fundamentals should remain supportive to continued but slowing growth in domestic demand and, to a lesser extent to international trade, in 2019 and 2020. Nevertheless, several factors could lead to a faster and more severe reversal of economic conditions than currently expected and could even cause the EU economy to slide into an early recession. The greatest risks stem from a global economic context which has become more uncertain due to rising protectionism, potentially leading to a further escalation of trade tensions between the US and its trading partners. Other risks include increased volatility in financial markets and the related vulnerability, in particular, of emerging economies. This volatility could lead to a deterioration in financial conditions, as well as geopolitical instability. All in all, the balance of risks has clearly shifted to the downside in recent months.

EUROFER's first quarter 2019 forecast for EU GDP growth is 1.7% in both 2019 and 2020.

TABLE OF CONTENTS

EU ECONOMIC OUTLOOK 2019-2020

GDP GROWTH

The EU economy slowed considerably in the third quarter of 2018, recording its weakest growth performance in four years. GDP grew by just 0.2% quarter-on-quarter in the Euro area and by 0.3% in the EU.

Detailed figures for the main expenditure components show that growth in investment and exports slowed down rather sharply, whereas private consumption and government consumption expenditure continued to grow at the same quarterly growth rate as in the first half of 2018.

The disappointing performance of the EU economy in the third quarter of 2018 can be attributed to a combination of various destabilising factors. Slowing global economic growth and rising protectionism had a negative impact on international trade. Moreover, activity in the EU automotive industry – particularly in Germany – slumped due to a surge in sales ahead of the introduction of new emissions and fuel efficiency measurement rules. Since Germany is more dependent on international trade than most of its EU counterparts, weakening industrial activity was a key factor in German GDP posting a 0.2% quarter-on-quarter decline. Italy also registered negative GDP growth in the third quarter, in a reflection of generally weak economic fundamentals and political uncertainty.

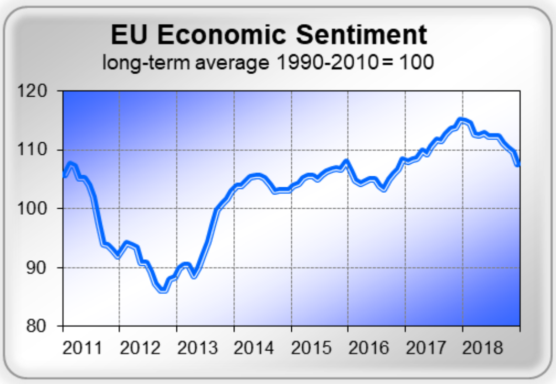
CONFIDENCE INDICATORS

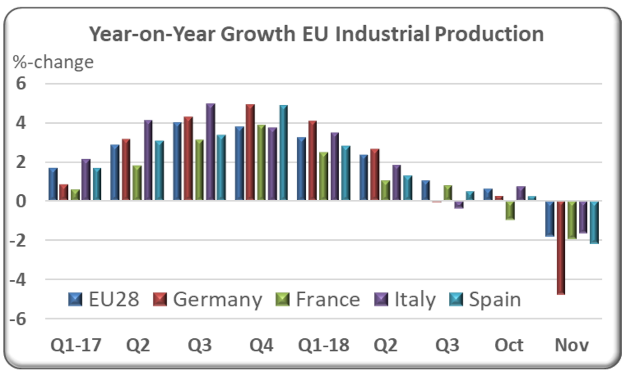
Forward looking indicators for the EU have deteriorated noticeably over the past few months.

The latest monthly business and consumer survey conducted by the European Commission reveals a broad-based decline in sentiment in December 2018, due to confidence in industry, services, construction and among consumers edging lower in all major euro area economies. Industrial confidence fell back to the lowest level in two years as companies become more pessimistic in their assessment of order books, production expectations and stocks of finished products.

The IHS Markit Eurozone Composite Output Index showed the same trend. The December reading was down to 51.1, the lowest level of the index for over four years, with underlying readings for the manufacturing and the services sectors moving in tandem. A key factor in the weakening survey results was the marked deterioration in the assessment of new orders and order books.

The drop in confidence levels across EU countries and key sectors basically reflect increasing threats from global protectionism, financial market volatility due to the normalisation of interest rates, political instability related to the 'yellow vests' protests, Brexit and a darkening outlook for global economic growth. The surveys also signal that the corporate sector in particular does not foresee a short-term improvement in business conditions, which could have a negative impact on investment going forward.





Available data for the fourth quarter of 2018 confirmed the continuation of weakening industrial momentum in the EU. The growth in manufacturing activity in the EU slowed from 3.2% in the first quarter, to 1% year-on-year in the third quarter, and came to a standstill in October, followed by a reversal into negative growth in November. in Germany the drop in activity was particularly notable.

Chances of the EU economy having moved up a gear in the final quarter of the year are therefore slim. However, owing to the relative strength of economic growth in the first half of 2018, growth over the whole year will not deviate significantly from earlier projections. EU GDP growth is estimated to have amounted to 2% in 2018.

ECONOMIC FUNDAMENTALS

Headwinds for the trade sector are expected to ease somewhat in 2019 and 2020 after the disappointing year 2018 when exports suffered from a weakening global environment and an escalation in protectionist measures. The problems in the automotive sector exacerbated this negative impact, especially on Germany.

The weakened euro should be a supportive factor over the coming quarters, especially if recent signs of a stabilisation of international trade conditions are not just temporary.

Nevertheless, the EU economy is expected to remain largely dependent on the strength of domestic demand.

The outlook for private consumption is moderately positive, though it remains on a slowing growth trend. The continued recovery in the EU labour market – as reflected by the one percentage point reduction in the EU unemployment rate in the 12-months period since November 2017 – should provide support to wage growth. In combination with inflation trending lower from its peak in October, the outlook for household spending is moderately positive. Private consumption growth is forecast to be 1.6% in 2019 and 1.6% in 2020.

Economic indicators

Year-on-year change in %

EUROFER Forecast	2017	2018 (e)	2019 (f)	2020 (f)
GDP	2.4	2.0	1.7	1.7
Private consumption	2.0	1.7	1.6	1.6
Government consumption	0.9	1.1	1.4	1.3
Investment	3.5	3.3	2.4	1.8
Investment in mach. equip.	3.7	3.9	2.7	1.8
Investment in construction	4.1	3.0	2.5	1.9
Exports	5.5	2.9	3.7	3.4
Imports	4.6	3.3	4.0	3.5
Unemploymen t rate	8.2	7.5	7.1	6.8
Inflation	1.7	1.8	1.7	1.7
Industrial production	3.4	1.9	1.8	1.8

(f) = forecast

The outlook for investment is surrounded by an elevated degree of uncertainty. An increasing number of companies in the EU and abroad is becoming more pessimistic in its assessment of order intakes and production expectations.

In Europe, manufacturing activity growth has stalled, thereby relieving pressure on existing capacities and, as a consequence the need, to invest in new capacity. Several large companies have recently lowered their profit forecasts, announced redundancies and/or postponed investment plans due to increased market volatility in the face of rising protectionism and still largely unknown risks related to Brexit. This is particularly true for the automotive sector. Both Jaguar Land Rover and Ford have announced job cuts and cost saving plans, which will not only affect their UK-based plants but also subsidiaries and suppliers on the continent.

On the positive side, cost of financing is still low and access remains easy. While the European Central Bank (ECB) put an end to its net asset purchases at the end of 2018, further steps in policy tightening will depend on its assessment of economic conditions and inflation. For the time being, no major changes in monetary policy are to be expected. Despite stalling growth in industry, capacity utilisation in the manufacturing and construction industry remains higher than in recent years. The weaker euro should strengthen the competitiveness of euro area manufacturers abroad.

Nevertheless, stability and predictability of the business environment are important factors in investment decisions. The risk of international trade frictions escalating further and rising uncertainty related to a no-deal Brexit could act as a drag on investment and lead to lower investment growth than currently forecast in the base-case scenario: 2.4% in 2019 followed by 1.8% in 2020.

GROWTH OUTLOOK FOR 2019-2020

Hard data and forward-looking indicators appear to suggest that the EU economy has entered the late-cycle phase of the rebound that started in 2014. Economic fundamentals should remain supportive to continued – but slowing – growth in domestic demand and, to a lesser extent, to international trade in 2019 and 2020. Nevertheless, several factors could lead to a faster and more severe reversal of economic conditions than currently expected and could even cause the EU economy to slide into an early recession. The greatest risks stem from a global economic context which has become more uncertain due to rising extra-EU protectionism, potentially leading to a further escalation of trade tensions between the US and its trading partners. Other risks include the increased volatility in financial markets and the particular vulnerability the emerging economies to a deterioration in financial conditions, as well as geopolitical instability. All in all, the balance of risks has clearly shifted to the downside in recent months.

EUROFER’s first quarter 2019 forecast for EU GDP growth is 1.7% in both 2019 and 2020.

THE EU STEEL MARKET: FINAL USE

OUTLOOK FOR STEEL-USING SECTORS

Production activity in the EU steel-using sectors lost momentum in the third quarter of 2018, particularly in the automotive sector. It is probable that this trend continued in the final quarter of 2018 and will persist into 2019 and 2020.

CONSTRUCTION INDUSTRY

The EU construction sector posted healthy growth in the third quarter of 2018, continuing the positive trend registered in the first half of 2018.

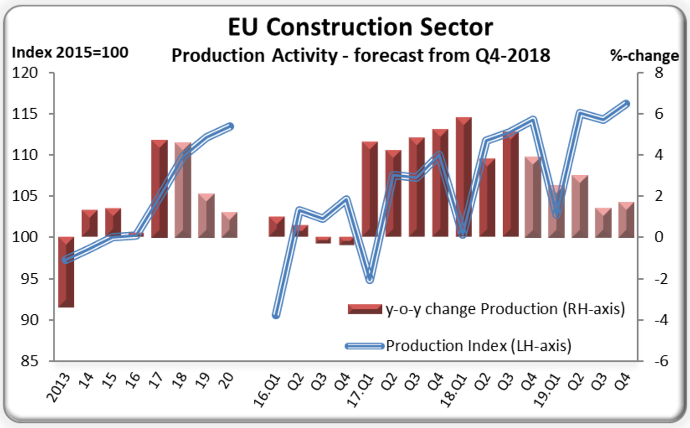
Construction industry output

EU production activity rose by 5.1% year-on-year in the third quarter of 2018, resulting in an average quarterly growth rate of 5% year-on-year over the first three quarters of the year. This strong performance marks the second year of the expansionary phase of the current rebound. The start of the early recovery phase was in 2014 after the long dry spell that had plagued the construction sector since 2008. Since then, demand characteristics have become increasingly broad-based across EU countries and construction sectors.

Construction industry activity in the third quarter of 2018

In the third quarter of 2018, construction output rose in almost all reporting countries. Italy and Sweden bucked the trend and registered (slightly) negative year-on-year growth. Activity expanded robustly in Spain, France, Austria, the Netherlands and in Central Europe.

Meanwhile, construction activity in the UK improved after a sluggish start to 2018, supported by residential activity and work on several large infrastructural projects.



In Western Europe, both residential and non-residential demand is driving the expansion in construction activity. Demand for new housing and residential renovation and modernisation is robust across the majority of Western European countries. The tightness in supply of affordable housing – particularly for first-time buyers – remains an issue, reflecting capacity issues and long order backlogs in the construction sector and delays in the authorities granting building permits. In several countries the tightness in the property market is exacerbated by the need for the authorities to accommodate recent years' migrant inflows.

Private non-residential construction demand has gained significant momentum since 2017, in line with improving business conditions in industry and services, and linked to low costs for finance; demand for warehousing facilities, offices, commercial and industrial buildings has clearly strengthened since then. Public non-residential activity benefits from the improved budgetary situation in the majority of western European economies.

In the Central European countries, the key driver of construction activity growth remains civil engineering demand. New and existing infrastructure projects have been boosting production growth in the sector in Poland, the Czech Republic, Slovakia and Hungary since the start of 2018. Healthy domestic economic conditions allowing for increased public investment in construction, co-funded by the EU, resulted in the construction investment cycle gaining strength since late 2017. At the same time, residential and non-residential activity also improved with support of the strength in private consumption and business investment.

EU construction activity is estimated to have expanded by 3.9% year-on-year in the final quarter of 2018, supported by the ongoing strength of the construction market. On balance, total construction activity is estimated to have risen by 4.6% in 2018.

Construction industry forecast 2019-2020

Construction activity is expected to gradually move into the late phase of the current business cycle over the course of 2019-2020 as the boost from pent-up demand is fading and EU economic momentum is weakening. This implies that both private and public construction investment will be losing strength. Some countries that had been lagging the general construction sector upturn in the EU, or had suffered badly from construction demand falling off a cliff during the 2008-2013 crisis period, will continue to register rather healthy growth. Generally speaking, strong order inflows in recent quarters, and capacity limitations, will mitigate the slowdown in 2019, but its effect will be felt more deeply in 2020. Supply constraints will remain an issue. Several EU countries face tight capacity and serious labour shortages in the construction sector, thereby limiting potential production growth.

Meanwhile, construction sector fundamentals are expected to remain moderately positive, supported by consumer and business confidence levels which, by historic standards, are still relatively high, improving disposable incomes, slow-but-positive growth of public and private investment as well as still low cost of finance. This will provide support to construction demand in both the residential and non-residential sectors.

Public construction investment will remain a growth driver over the forecast period. Critical bottlenecks in the EU's digital infrastructure, transport and energy networks will have to be improved in order to unleash full potential of the EU economy. Investment will be increasingly geared at promoting sustainability and decarbonisation. This will provide a welcome impetus to civil engineering activity, giving support to ongoing but more moderate construction sector growth in the future.

Total EU output is forecast to rise by 2.1% in 2019 and by 1.2% in 2020.

AUTOMOTIVE INDUSTRY

EU automotive sector activity posted negative growth in the third quarter of 2018 due to production cuts related to the sector having to meet new emission testing requirements.

EU passenger car and commercial vehicle demand

Since September 2018, EU passenger cars have been on a declining trend that was triggered by the introduction of new emission testing procedures (the so-called WLTP or Worldwide Light vehicle

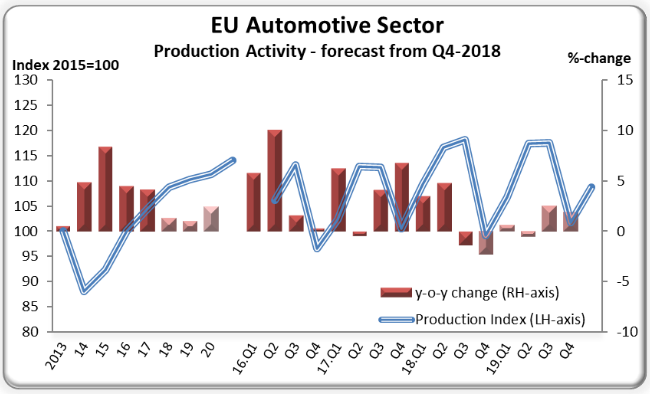
Test Procedure). Sales in July and August had been boosted by manufacturers clearing stocks of pre-WLTP vehicles. Registrations fell by 12% year-on-year over the last four months of 2018; all major markets were affected. This resulted in total registrations in 2018 stabilising around the 2017 level. Sales contracted in the UK and Italy.

Commercial vehicle sales remained on a rising trend in October and November but registered a year-on-year decline of 4% in December. Total registrations of commercial vehicles grew by 3.2% in 2018. On balance, both the light commercial vehicle and the medium and heavy commercial vehicle segment had a satisfactory performance over the fourth quarter. The only major markets which registered a drop in demand were the UK and Italy.

Vehicle exports to third countries continued their downward trend in the second half of 2018, as vehicle manufacturers targeting the full global market experienced weakening consumer confidence, negative effects from the trade war between the US and China and a general slowdown in global economic growth. In particular, this acted as a drag on demand from the US, China and Turkey.

Automotive sector activity in the third quarter of 2018

Production activity in the EU automotive industry fell, unexpectedly, by 1.3% year-on-year in the third quarter of 2018. In contrast, average quarterly growth over the first half of 2018 had been slightly more than 5% year-on-year.



The impact of the transition to new emission testing procedures on production through stock clearances was particularly felt in Germany, the UK and Italy, whereas France still registered growth in activity.

Production activity in the fourth quarter of 2018 is estimated to have fallen by 2.3% year-on-year. This is because of the transient effects later also impacting France, and due to slowing sales momentum in the automotive market.

All in all, total automotive production in the EU is estimated to have expanded by 1.3% in 2018.

Automotive industry forecast 2019-2020

The outlook for 2019 and 2020 is obscured by several factors. EU passenger car demand is expected to continue to moderate after several years of strong demand growth. The Western European market is particularly close to saturation in terms of vehicle density, albeit with regional divergences. Moreover, private car buyers and lease companies appear confused over European governments' increasingly punitive stance towards diesel cars after the Volkswagen emissions scandal. Private buyers, sensing the uncertain regulatory and fiscal landscape, may be postponing purchase decisions and retaining their existing vehicles instead of buying new vehicles , thereby avoiding the risk of unexpectedly high levels of depreciation.

The growth in EU commercial vehicle demand is also forecast to lose strength in 2019 and in 2020. Nevertheless, the anticipated mild growth in domestic markets will remain a key growth driver for EU vehicle production.

External demand for passenger cars and commercial vehicles is also expected to weaken over the forecast period. Slowing economic growth in key EU-manufactured vehicle destination countries, such as Turkey, China and the US, will also impact automotive demand, as will rising localised production in emerging markets overtaking imports from Europe.

Should the Trump administration's protectionist stance result in higher automotive import tariffs, Germany, Italy and the UK would be hardest hit. For UK manufacturers, the prospect of the country leaving the EU under a 'no-deal' scenario would have disastrous consequences for UK production sites. The increase in uncertainty for the EU automotive sector in general, and for UK and German OEMs in particular, is illustrated by recent news from Jaguar Land Rover and Ford on job cuts and cost saving plans, which will not affect only their plants in the UK and Germany but on subsidiaries and suppliers elsewhere on the continent as well.

The outlook for EU automotive output is therefore rather subdued even going into in 2019, during which the impact of the WLTP may still have some impact.

EU automotive production is forecast to rise by 1% in 2019 and by 2.4% in 2020.

MECHANICAL ENGINEERING

Business conditions in the EU mechanical engineering sector remained supportive to growth in the third quarter of 2018. Production activity grew by just over 4% compared with the same period of 2017.

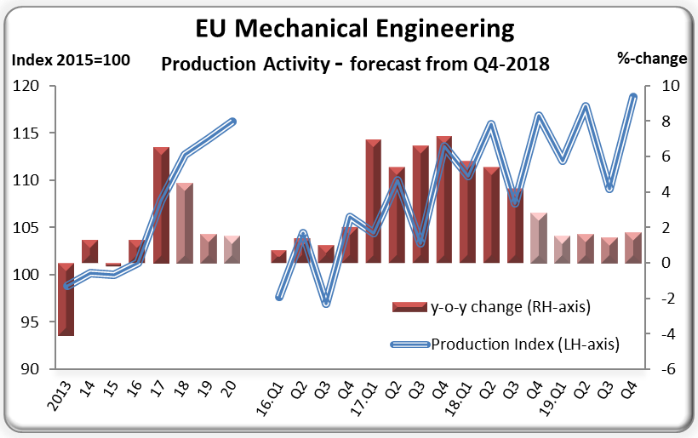
Mechanical engineering output

Output in the EU mechanical engineering industry rose by 4.2% year-on-year in the third quarter of 2018, a mild moderation in growth momentum compared with average quarterly production growth of around 5.5% year-on-year over the first half of the year. Similar to the situation in the first two quarters of 2018, output growth was positive in all reporting countries except Hungary.

Average growth over the first three quarters of 2018 is therefore less vigorous than it was in 2017. This can be explained by dissipation of previously pent-up EU demand and slowing international trade, as well as a delayed impact from the stronger euro on order intakes in the first quarter of the year.

Mechanical engineering activity in the third quarter of 2018

Demand for machinery and equipment from the EU as well as the export markets remained at a healthy level in the third quarter of 2018. Improving profits and capacity utilisation in combination with still elevated business sentiment levels and low cost of and easy access to finance for companies in the key downstream customer segments were the main factors in support of the continuation of favourable business conditions.



Production activity in the fourth quarter of 2018 is estimated to have risen by 2.8% year-on-year. Total production in the mechanical engineering sector is estimated to have expanded by 4.5% in 2018.

Mechanical engineering forecast 2019-2020

The mechanical engineering sector in the EU is expected to continue the positive trend in production activity registered in recent years, but output growth will moderate over the forecast period 2019-2020. EU investment in machinery and equipment is expected to settle back to a reduced rate compared with annual growth over the 2016-2018 period as the impetus from pent-up demand falters. Demand from the international market also looks set to weaken, more so because of slowing growth in developed economies such as the US than in emerging regions. The weakened euro should be supportive of the competitiveness of euro area exporters.

Nevertheless, uncertainty could restrain capex in 2019 and 2020. The stability and predictability of the business environment are important factors in investment decisions. Moreover, investment is, in several sub-sectors, increasingly geared towards services – including in the development of artificial intelligence and software, as well as research. This limits the actual material content in the product mix of the mechanical engineering sector. The risk of international trade frictions escalating further, and rising uncertainty related to a no-deal Brexit could act as a drag on investment and lead to lower investment growth than currently forecast in the base-case scenario.

Production activity is forecast to rise by 1.6% in 2019 followed by 1.5% in 2020.

STEEL TUBE INDUSTRY

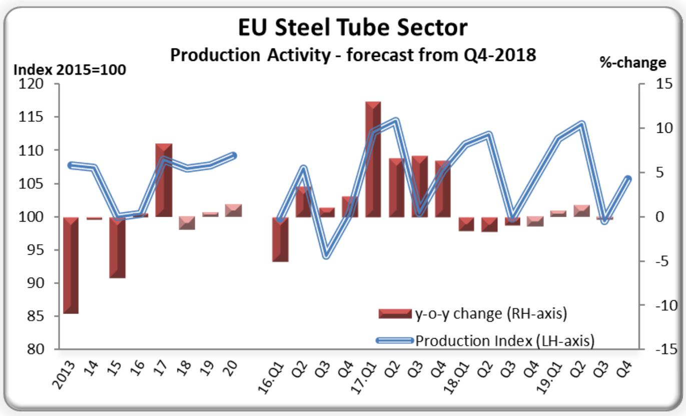
In the third quarter of 2018, output in the steel tube industry remained on a downward trend as demand from large pipeline projects – which had supported production activity in the sector in 2017 – has been waning.

Steel tube industry output

In the third quarter of 2018, production activity in the steel tube industry fell by 0.9% year-on-year – more or less in line with the reduction in output registered in the first half of 2018. This downward trend in production was observed in Germany, France, Italy, Spain and Poland. In most of the other reporting countries production registered an increase in production in the third quarter.

Steel tube industry activity in the third quarter of 2018

The continued decline in production activity in the EU steel tube sector in third quarter of 2018 does not come as a surprise and follows the production pattern observed over the first half of the year. The main reason is the depletion of order books for large welded tubes at the main production sites in the EU which are predominantly located in Germany. Compared with high



output levels in 2017, the year-on-year decline of German production is therefore significant. As a consequence, the performance of the EU steel tube sector depends more strongly on demand for small and medium-sized welded tubes and seamless tubes.

Generally speaking, business conditions in the other EU countries were rather benign owing to relatively strong demand from the main downstream client sectors of smaller diameter welded and seamless steel tubes such as automotive, metal goods, mechanical engineering and construction.

EU steel tube output is estimated to have fallen by 1.1% year-on-year in the fourth quarter of 2018, resulting in a 1.4% drop in total production activity in 2018.

Steel tube industry forecast 2019-2020

In 2019 and 2020, production activity of the EU steel tube industry in the EU is expected to return to growth. The 2017 base-year effect on large welded tube output in Germany is expected to fade away in 2019, whereas slower but still positive activity growth in the main downstream user segments for smaller sized welded and seamless tubes should support demand for steel tubes in general.

Meanwhile, the prospects for large welded tubes remain uncertain. Several smaller projects such as the gas pipeline between Poland and Slovakia will require volumes of large welded tubes. The Trans Adriatic Pipeline (TAP) could also have a positive impact on order books and mill loads. The project successfully completed its financial close in December 2018.

While existing bottlenecks in Europe's gas pipeline infrastructure will limit the export capacity of Russia, expansion of the network cannot be taken for granted because of the political sensitivity of the potential increase in dependence of the EU on the supply of Russian gas. Another option to satisfy the expected rise in gas demand in the EU is a further increase in LNG imports. For some time, the northwest of Europe has been regarded as the "sink" of the global LNG market. This may remain so in 2019 and 2020, as the increase in global LNG supply will outpace demand in Asia, thereby requiring Europe to absorb the excess supply.

Meanwhile, import pressure on steel tube markets in the EU will remain high. It is reported that the surplus in supply of large diameter pipes from Russia could rise to almost 3.9 million tonnes. Total Russian steel tube production is projected to rise by 3% in 2019, whereas domestic demand is expected to grow by 1%.

Total steel tube output in the EU is expected to increase by 0.5% in 2019 and by 1.4% in 2020.

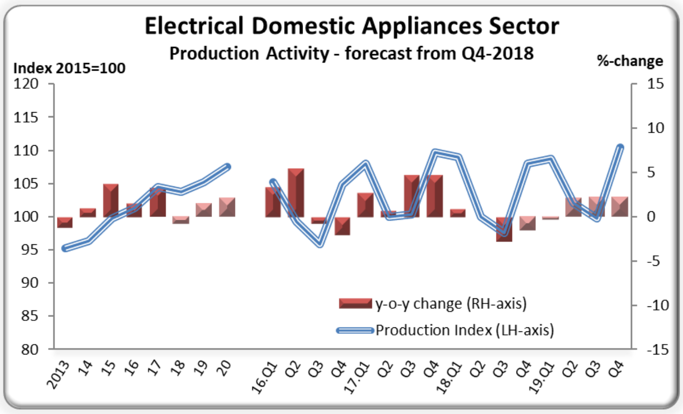
ELECTRICAL DOMESTIC APPLIANCES INDUSTRY

Production activity in the electrical domestic appliances industry fell by 2.7% in the third quarter of 2018.

Electrical domestic appliances output

Production activity in the EU's electrical domestic appliances sector fell by 2.7% year-on-year in the third quarter of 2018, a fairly similar growth rate to that registered in the first quarter of 2018. Owing to corrections for production activity in several countries, production growth over the first half of 2018 was revised downwards to approximately 0.5% year-on-year. However, underlying production data at the individual country level confirm the continuation of widely diverging trends in production activity.

Electrical domestic appliances industry activity in the third quarter of 2018



Production activity in Germany, Italy, the UK, the Benelux countries, Spain and Slovakia contracted compared with the same period of 2017, whereas output in France, Austria, Sweden, the Czech Republic, Poland and Hungary registered growth in comparison with the same period of 2017. The resulting downward trend in total EU production is also due to a base-year effect, because production in the second half of 2017 had still shown significant year-on-year growth. Nevertheless, on a par with weaker consumer confidence levels and slowing growth of private consumption, demand for electrical domestic appliances also lost momentum after a prolonged period of market strength. First estimates for production activity in the fourth quarter of 2018 signal the continuation of negative year-on-year growth. On balance, total production is estimated to have fallen by 0.8% in 2018.

Electrical domestic appliances industry forecast 2019-2020

EU demand for electrical domestic appliances is expected to continue to increase, but at a reduced speed compared with preceding years. This should be seen in the context of the gradual weakening of consumer fundamentals over the forecast period. Private consumption in 2019 and 2020 is expected to slow mildly compared with the average 2% per annum growth rate registered over the 2016-2018 period.

The fact that the EU market for household appliances is primarily driven by replacement demand, in combination with rather strong sales in the recent past, implies that demand will lose momentum. However, the ongoing strength of the property markets, alongside a still positive outlook for residential building activity, should provide support to sales of household appliances.

In the European market, demand for smart household appliances is gaining traction, but mainly owing to early technology adopters and professional users. These appliances are, generally speaking, still in their introductory phase and it will take some time for them to go from niche to mainstream usage. For the majority of consumers, the key factors influencing purchase decisions will remain energy efficiency, styling and user-friendliness; environmental aspects such as sustainability and circularity are also increasingly important.

Protectionism and trade restrictions are also an issue in this sector. International competition will remain fierce in this market, particularly in the lower and medium quality segments.

Production activity in the EU is forecast to rise by 1.5% in 2019 and by 2.1% in 2020.

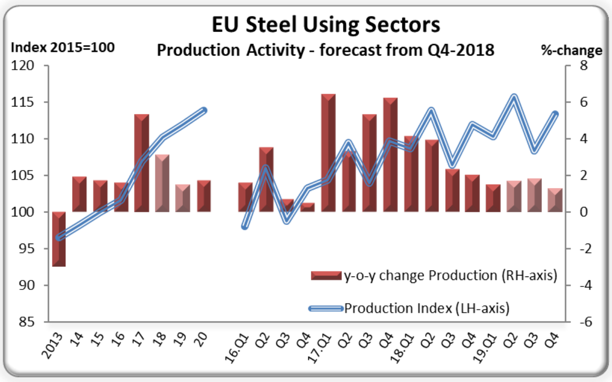
TOTAL STEEL-USING SECTORS OUTPUT

Total production activity in EU steel-using sectors grew by 2.3% year-on-year in the third quarter of 2018.

Year-on-year %-change EU Steel Weighted Industrial Production (SWIP) index												
	% share in total Consumption	Q118	Q218	Q318	Q418	Year 2018	Q119	Q219	Q319	Q419	Year 2019	Year 2020
Construction	35	5.8	3.8	5.1	3.9	4.6	2.5	3.0	1.4	1.7	2.1	1.2
Mechanical engineering	14	5.7	5.4	4.2	2.8	4.5	1.5	1.6	1.4	1.7	1.6	1.5
Automotive	18	3.5	4.8	-1.3	-2.3	1.3	0.6	-0.5	2.5	1.9	1.0	2.4
Domestic appliances	3	0.9	0.0	-2.7	-1.5	-0.8	-0.3	2.1	2.2	2.2	1.5	2.1
Other Transport	2	4.0	9.1	10.7	12.8	9.0	4.8	3.1	0.7	1.6	2.6	1.8
Tubes	13	-1.6	-1.7	-0.9	-1.1	-1.4	0.7	1.3	-0.3	0.0	0.5	1.4
Metal goods	14	5.8	4.8	2.7	2.4	3.9	0.6	1.4	1.4	1.3	1.2	1.8
Miscellaneous	2	4.4	2.5	1.0	-0.3	1.9	0.4	1.4	2.1	2.1	1.5	2.0
TOTAL	100	4.1	3.9	2.3	2.0	3.1	1.5	1.7	1.8	1.3	1.5	1.7

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

Having grown at rather vigorous quarterly rates in 2017 and the first half of 2018, production growth in the EU steel-using sectors slowed down in the third quarter of 2018. The growth moderation was particularly evident in the automotive sector. In contrast, the only large steel-using sector that did not witness a growth deceleration was the construction industry.



Germany, Italy, the UK and Belgium registered a slight reduction in production activity in the third quarter of 2018, but this was compensated by the continuation of rather robust growth in the other reporting countries.

Total output is estimated to have grown by 2.0% in the final quarter of 2018. As a consequence, total output growth in the EU's steel-using sectors is estimated to have amounted to 3.1% in 2018.

Total steel-using sector forecast 2019-2020

The growth trend in production activity over 2018 confirms that the EU's steel-using sectors have entered the late stage of the current business cycle. This implies that while economic fundamentals will remain mildly positive, actual growth rates of production activity will slow down in 2019 and

2020. Domestic demand will be supported by ongoing, but weaker, investment and private consumption growth. As far as the performance of the export sector is concerned, 2019 and 2020 look set to improve somewhat in comparison to the rather difficult conditions seen in 2018. This means the contribution of external trade to GDP growth could strengthen. The greatest risks stem from a global economic context which has become more uncertain due to rising protectionism, potentially leading to a further escalation of trade tensions between the US and its trading partners. This could have a negative impact on confidence and investment as well as exports.

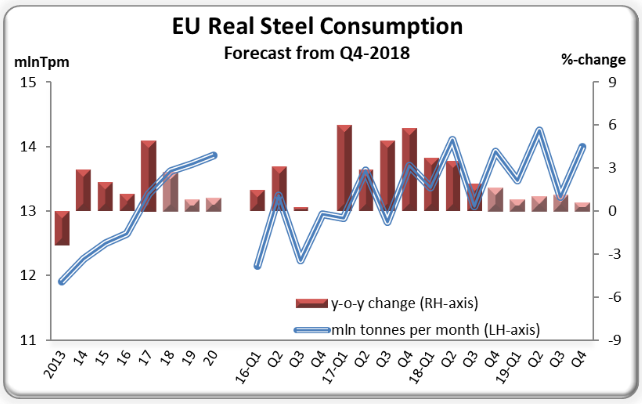
Output in the EU's steel-using sectors is forecast to grow by 1.5% in 2019 and by 1.7% in 2020.

REAL STEEL CONSUMPTION

Real steel consumption rose by 1.9% year-on-year in the third quarter of 2018 and amounted to 39 million tonnes.

Real steel consumption in the third quarter of 2018

Driven by continued but slower production growth in EU steel-using sectors, real steel consumption grew by 1.9% year-on-year in the third quarter of 2018.



Although the year-on-year growth in real steel consumption remained in positive territory, its growth rate is much more moderate than the quarterly growth registered in 2017 and the first half of 2018.

Estimates for the fourth quarter of 2018 signal a further mild deceleration in year-on-year real steel consumption growth, on a par with the slowdown in production activity in the key downstream steel-using sectors registered over that specific period. On balance, total real steel consumption in the EU is estimated to have risen by 2.7% in 2018.

Real steel consumption forecast 2019-2020

Taking into account that activity growth in the steel-using sectors will moderate over the 2019-2020 period, real steel consumption growth is also expected to continue to lose momentum. The average growth of real steel consumption amounted to 2.7% per annum over the years 2014 to 2017. From an economic perspective this growth rate does not appear to be sustainable in 2019 and 2020.

EU real steel consumption is forecast to grow by 0.8% in 2019 and by 0.9% in 2020. This will result in real steel consumption reaching 165 million tonnes in 2019 and 166 million tonnes in 2020. The expected slowing trend in real steel consumption growth means that final steel use in the EU market will only be 3 million tonnes higher by the end of 2020 compared to 2018. Despite this growth, final steel use in 2020 will still be 14% down on the pre-crisis level. Moreover, over the past five years third country suppliers captured 95% of the increase in final steel use.

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

Period	Q1-18	Q2-18	Q3-18	Q4-18	Year 2018	Q1-19	Q2-19	Q3-19	Q4-19	Year 2019	Year 2020
% change	3.7	3.5	1.9	1.6	2.7	0.8	1.0	1.1	0.6	0.8	0.9

THE EU STEEL MARKET: SUPPLY

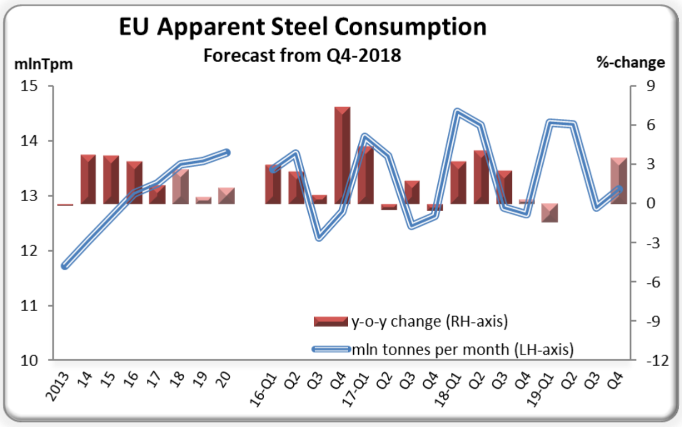
The supply-side of the EU steel market analysis factors in the impact of domestic and foreign supply, as well as stock effects in the distribution chain and at end-users.

APPARENT STEEL CONSUMPTION

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

Apparent steel consumption in the third quarter of 2018

EU28 apparent steel consumption grew by 2.6% year-on-year in the third quarter of 2018 and amounted to 38 million tonnes. Quarterly apparent steel consumption had, on average, been around 43 million in the first half of the year. Lower consumption in the third quarter can be explained by the usual seasonal slowdown in manufacturing and construction activity and some destocking in the supply chain.



Estimates for the fourth quarter of 2018 show a further deceleration in year-on-year growth in apparent steel consumption and again a lower quarterly volume as a result of seasonal destocking in the final quarter of the year.

EU domestic and foreign supply

In the third quarter of 2018 domestic deliveries from EU mills to the EU market barely increased compared with the same period of 2017; year-on-year growth amounted to a meagre 0.4%. Much in contrast, third country imports rose by 15.4% year-on-year and amounted to almost 9 million tonnes.

Customs data for October and November and estimates for December signal that total imports – including semis - most likely rose by another 15% year-on-year in the fourth quarter of 2018 and were also up by 6% compared with the previous quarter. In combination with the 0.3% year-on-year growth estimated for apparent steel consumption over that period this implies that EU domestic deliveries fell by more than 5% year-on-year in the final quarter of 2018.

Over the whole year 2018 this results in a 2.6% increase in apparent steel consumption, which predominantly benefitted third country suppliers owing to a rise of 12.3% in imports whereas domestic producers barely gained at all from the growth in domestic steel demand given the meagre 0.6% increase in their deliveries to the EU28 market.

The sharp year-on-year increase in imports in the second half of the year clearly illustrates that in spite of the preliminary safeguard measures imposed by the EU Commission the EU market was flooded by imports. This shows that market access to other regions was blocked more effectively by protectionist measures in those places, thereby leading to a continued diversion of steel to the

EU market. For every three tonnes of steel blocked by the US' section 232 tariffs, approximately two tonnes have landed in the EU.

Apparent steel consumption forecast 2019-2020

EU steel market fundamentals are expected to remain moderately positive. Nevertheless, apparent steel consumption growth is forecast to slow down to only 0.5% in 2019 followed by 1.2% in 2020, less than one-third of the compound annual growth rate of apparent steel consumption over the period 2014-2018.

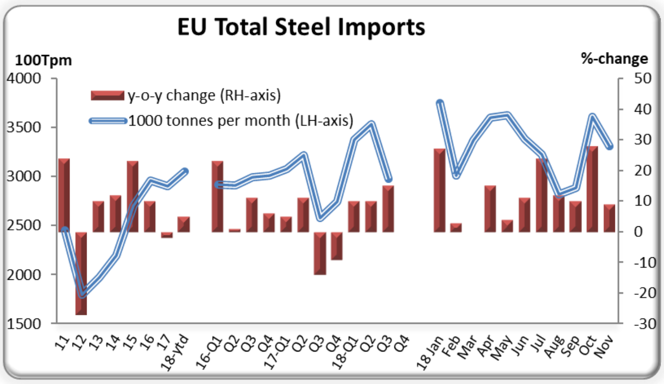
This very modest growth scenario – in combination with a global steel market that is suffering from overcapacity, slowing demand and as a consequence a flurry of protectionist measures – has the potential to develop into a major threat for EU market stability over the forecast period. The proposed relaxation of the safeguard measures appears to be over-proportionate and entails the risk of undermining the effectiveness of the safeguard mechanism.

	EU apparent steel consumption - in million tonnes per year										
Year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018 (e)**	**2019 (f)**	**2020 (f)**
Million tonnes	148	158	141	141	146	152	157	159	163	164	166

Forecast for EU apparent steel consumption - % change year-on-year											
Period	**Q1-18**	**Q2-18**	**Q3-18**	**Q4-18**	**Year 2018**	**Q1-19**	**Q2-19**	**Q3-19**	**Q4-19**	**Year 2019**	**Year 2020**
% change	3.3	4.1	2.6	0.3	2.6	-1.4	0.0	0.0	3.5	0.5	1.2

IMPORTS

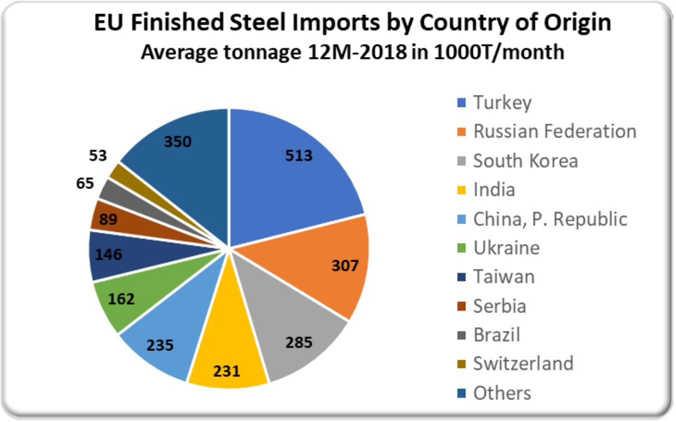
Total imports – including semi-finished products – rose by 5% year-on-year over the first eleven months of 2018.



When SURV2 data for December are taken into account, finished product imports rose by 12% over the whole year 2018, due to a 33% year-on-year increase in long product imports and a 6% rise of flat product imports.

After a temporary moderation in August and September, finished product imports reached a post crisis peak of 2.8 million tonnes per month in October before tapering off again in November and December.

Imports by country of origin



Over the first eleven months of 2018, the main countries of origin for finished steel imports into the EU market remained Turkey, Russia, South Korea, India and China. These five countries represented 65% of total finished steel imports into the EU.

Imports from Turkey and Russia remained on a strongly rising trend over this period.

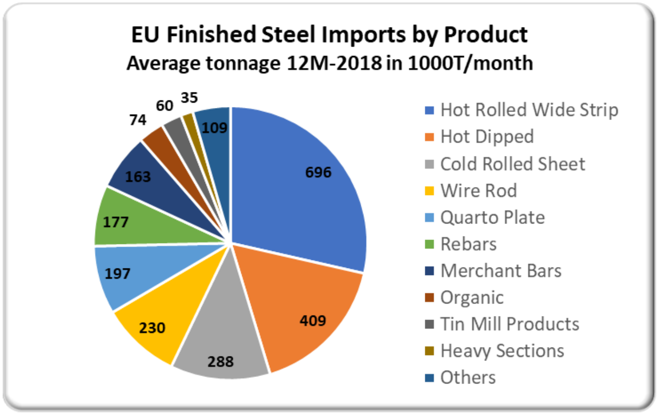
Imports from Turkey rose by 65% year-on-year, driven by a 57% increase in flat product imports and an 80% rise in long product imports. Imports from Russia rose by 53% year-on-year, owing to a 69% rise in flat products and a 29% increase in long product imports.

Imports from South Korea increased by 9% year-on-year over the first eleven months of 2018, as a result of 7% year-on-year rise in flat products imports and a 59% increase in long product imports.

Meanwhile, imports from China fell by 18% year-on-year and those from India by 26% year-on-year over this period, following sharp increases in imports in 2017.

Other Asian countries that stepped up their exports of finished products to the EU in 2018 were predominantly Vietnam with a 63% rise and Taiwan with a 42% increase.

Imports by product category

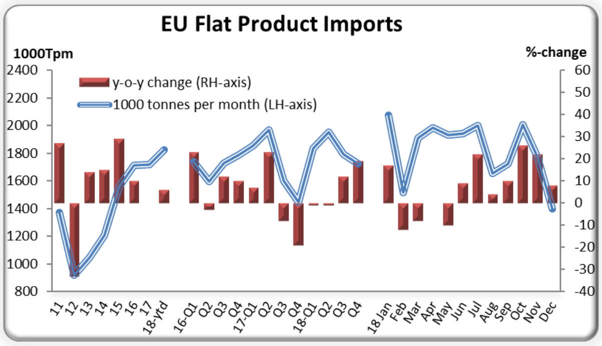


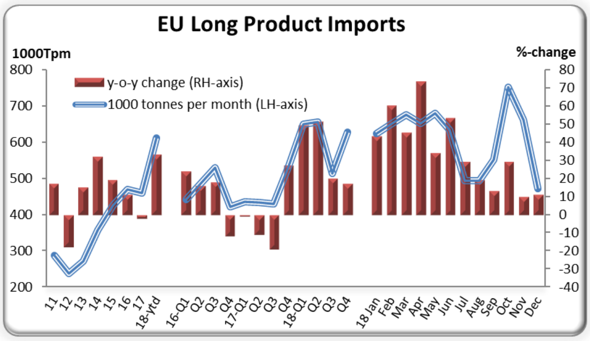
Total imports of flat products grew by 6% in 2018; import volumes were slightly lower in the second half compared with volumes in the first half of 2018 when third country exporters were pushing extra volumes to the EU market in anticipation of safeguard measures to be announced by the European Commission. Nevertheless, import volumes of flat products in the third and fourth quarter were up 12% and 19% respectively on the same quarter of 2017.

Hot-rolled wide strip and tin mill product imports registered in 2018 the strongest rise (by 18% and 17% respectively) compared with the volumes that were shipped to the EU market in 2017. Imports of quarto plate and organic coated sheets registered a mild decline compared with 2017.

The rise in long product imports was much more pronounced in 2018. Having grown by 50% over the first half of 2018, the year-on-year rise was 20% in the third quarter and 17% in the final quarter despite monthly volumes in the second half being slightly lower than in the first half. The rise in total long imports was 33% in 2018.

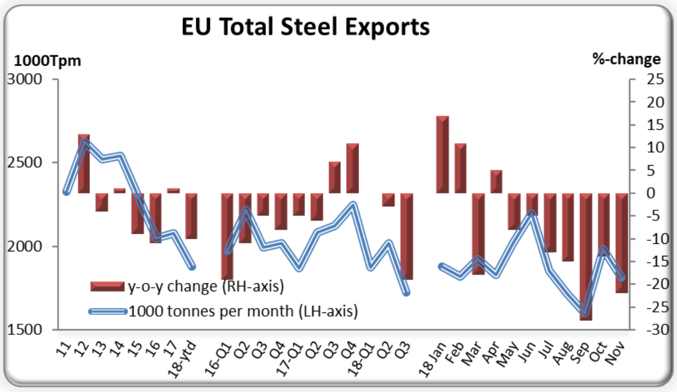
With a growth rate of 58%, imports of heavy sections registered the strongest increase in 2018, followed by rebars with 51%. The increase in wire rod (20%) and merchant bar imports (36%) was slightly less pronounced.





EXPORTS

Total EU exports of steel products to third countries fell by 10% year-on-year over the first eleven months of 2018.

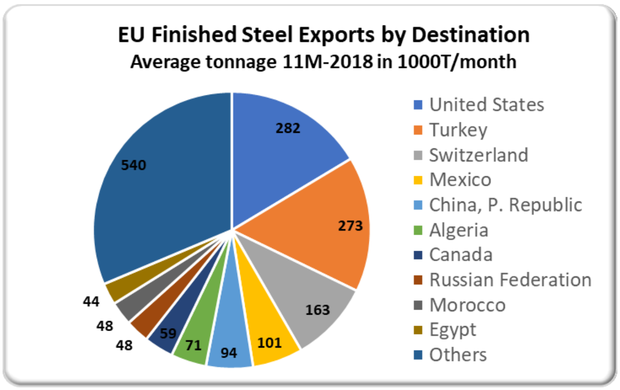


Underlying figures show that exports of semi-finished products fell by 13% year-on-year, total finished product exports fell by 9% year-on-year as a result of a 9% drop in flat product exports and a 10% reduction in long product exports.

While finished product exports had registered a slight decrease of 2% year-on-year over the first half of 2018, the reduction in export volumes was more striking in the second half of the year due to the combined effects of globally imposed trade restrictions and the slowing growth of global steel demand. Exports fell by 18% year-on-year in the third quarter of 2018 and by a similar rate over the October-November period.

Exports by country

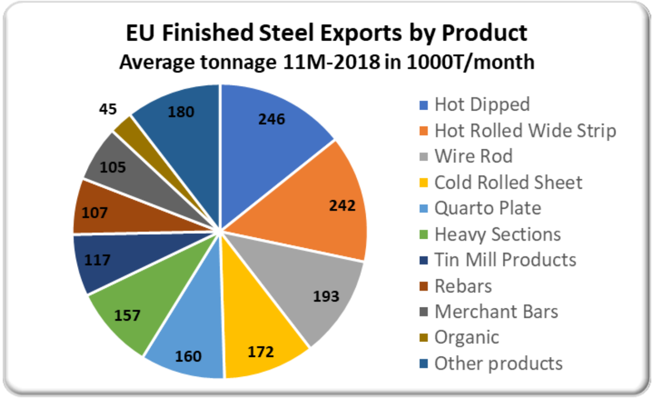
Over the first eleven months of 2018, the United States, Turkey and Switzerland remained the largest export destinations for EU finished product exports, followed by Mexico and China. These three countries accounted for 42% of total EU finished product exports over this period. While exports to Switzerland stabilised at around the level of 2017, exports to the US fell by 3% year-on-year and to Turkey by 29% year-on-year.



The fact that the decline in EU exports to the US remained relatively mild reflects the loyal customer base of EU steel producers in that market owing to the specific value proposition of their products and services for which the majority of customers have apparently been willing to pay extra.

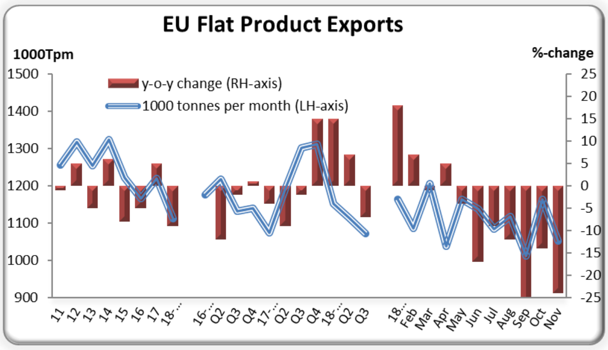
Exports by product category

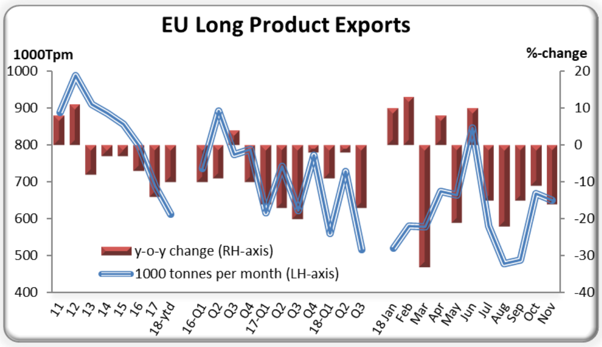
Flat and long finished steel product exports accounted for 92% of total EU exports over the first eleven months of 2018 while semis accounted for the remaining 8% of exports.



Flat product exports accounted for 59% of total exports whereas long product exports accounted for the remaining 33%.

All main product groups registered a decline in export volumes over the first eleven months of 2018. The sharpest year-on-year reduction in exported volumes was registered in rebar (-26%) and hot-rolled wide strip (-23%).





Trade balance

The marked rise in imports and the continued drop in exports resulted in a deepening of the EU's trade deficit from an annualised 9.9 million tonnes in 2017 to 17.4 million tonnes in 2018.

The trade deficit in semis grew from 0.56 million tonnes per month in 2017 to 0.69 million tonnes per month over the first eleven months of 2018. The net trade deficit in finished products rose from 0.27 million tonnes per month in 2017 to 0.77 million tonnes per month over this period.

The deficit in flat products rose to 0.75 million tonnes per month over the first eight months of 2018, coming from 0.5 million tonnes per month in 2017.

While in 2017 trade in long products still registered a surplus of 0.23 million tonnes per month in 2017, it reversed into a slight deficit of 0.01 million tonnes per month over the first eleven months of 2018.

At the individual country level, the strongest trade deficits were recorded for steel trade with Russia, Ukraine, South Korea, India and Turkey.

The sharp deterioration in the trade balance of the EU with countries since 2012 confirms that competition in the global steel market has increased significantly, reflecting the adverse combination of global overcapacity, the distortion of competitiveness through steel sector subsidisation by national authorities and increasing protectionism. This trend is not expected to improve for the better in the foreseeable future owing to rather bearish projections for global steel consumption in the years ahead.

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 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.