EUROFER
The European Steel Association

ECONOMIC REPORT

ECONOMIC AND STEEL MARKET OUTLOOK 2019-2020

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INTRODUCTION

Apparent steel consumption fell by 2.5% year-on-year in the first quarter of 2019. The negative trend in steel demand is the result of the ongoing slump in EU's manufacturing sector due to weakened exports and investment. Forward-looking indicators signal, at best, a low-level stabilisation later this year, but no rebound.

The manufacturing sector in the EU may have not seen the worst yet: a deepening escalation of the trade war between the US and several of its main trading partners and a no-deal Brexit would severely impact global trade conditions, trigger a further deterioration in business sentiment and lower investment growth. In that scenario, the EU steel sector would suffer badly because at the same time the risk of import distortions increases due to the expansion of the size of the safeguard measures' quota both this year and next.

EU STEEL MARKET OVERVIEW

EU28 apparent steel consumption fell by 2.5% year-on-year in the first quarter of 2019 and amounted to 42.6 million tonnes. Stock building in the distribution chain was lower than in the same quarter of 2018, which exacerbated the negative trend in final steel use. This should be seen in context of the development of the inventory cycle in the second half of last year which was characterised by lower than usual seasonal inventory reductions and therefore relatively high stock levels in the EU steel distribution chain at the start of 2019

The negative trend in steel demand at the start of this year has primarily hurt domestic steel producers in the EU. In the first quarter of 2019 domestic deliveries from EU mills to the EU market fell by 4% compared with the same period of 2018. Meanwhile, third country imports decreased only by 1% year-on-year and amounted to 10 million tonnes, accounting for 23.6% of EU steel demand.

The overall trend in total imports hides distortive developments in imports at the individual product level which are allowed under the current quota modalities and management. This situation has created, for several products, a rush for quota consumption including stock building and import concentration, disrupting the stagnating EU steel market, notably by Turkey and China. The most affected products are metallic coated sheets for automotive applications, rebar and wire rod.

The EU steel market is facing severe challenges which are expected to have a negative impact on apparent steel consumption. Following a decline in the first quarter of 2019, real steel consumption is on balance expected to stabilise around the year earlier level in the remainder of the year, leading to a total reduction in final steel use by 0.4% over the whole year. Meanwhile, flaws in the design and functioning of the current safeguard measures do not reflect the reality of an EU steel market. The market is being squeezed between negative final steel use developments and is facing the ongoing and serious threat of import deflection triggered by the US Section 232 import tariff in a context of persistent global overcapacity. The system still allows for extreme behaviours by exporters which have the potential to lead to serious market distortions. The expected reduction of apparent steel consumption in 2019 of 0.6% year-on-year is therefore expected to come mainly at the expense of EU steel producers.

Even though market conditions in 2020 are expected to improve moderately, risks related to import distortions continue to threaten the stability of the EU steel market. The 5% increase in the safeguard quota from July 2020 – following a 5% rise in February and in July 2019 – is once more not aligned with expected growth in real steel consumption of just 1.1% in 2020. The EU market therefore remains at risk of being destabilised by third country imports at the expense of EU domestic producers.

EU STEEL-USING SECTORS

From the peak in the final quarter of 2017, deteriorating business conditions in the manufacturing industry in general and in the automotive industry in particular led to an ongoing moderation in output growth in the steel-using sectors. The downturn in industrial activity is a global phenomenon, reflecting weakening global trade and investment. A fast rebound is not on the cards, also because of the negative impact of US protectionist measures on trade.

For the EU, risks related to the external environment will remain the key challenge over the forecast period 2019-2020. Over the past two years, the fundamentals of global trade have clearly changed for the worse, due to the US government putting tariffs on billions of dollars' worth of goods imported from its main trading partners the EU, Canada, Mexico and China. The affected countries have responded in kind, retaliating with similar tariffs on US products.

EU's manufacturing base is suffering, particularly in those countries and sectors more exposed than average to international trade. Weakened business sentiment puts investment are at risk of falling behind expectations; this would be exacerbated in case of a no-deal Brexit and a further escalation in protectionist trade measures. Automotive tariffs imposed by the US authorities on automotive imports from the EU would seriously harm the entire automotive supply chain. On the positive side, a orderly Brexit and the settlement of trade disputes between the US and its main trading partners would pose an upside risk. Support is also provided by continued strength in construction.

Output in the EU's steel-using sectors is forecast to grow by 1.1% in 2019 and by 1.4% in 2020.

EU ECONOMIC CONTEXT

Over the past few months the outlook for the global economy has further deteriorated and downside risks have intensified rather than declined. The broad-based slowdown in growth of international trade particularly affects industrial supply chains in the EU.

The likelihood of increasing economic fragility in the two largest economies of the world - the US and China - do not bode well for global economic growth and trade conditions in the second half of 2019 and in 2020. Given its relative sensitivity to global economic trends, the EU economy is expected to enter a period of below-trend growth. However, growth of domestic demand is forecast to remain sufficiently resilient to prevent the EU economy from sliding into recession.

The main downside risk for the EU economy is a deepening escalation of the trade war between the US and several of its main trading partners, followed by a no-deal Brexit, through a further deterioration in business sentiment and lower investment growth. This would spell trouble for the manufacturing sector in the EU, in particular for those countries that rely to a significant extent on exports.

EUROFER's third quarter 2019 forecast for EU GDP growth is 1.4% in 2019 and 1.5% in 2020.

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GDP GROWTH

In the first quarter of 2019 EU economic growth revived after the marked slowdown in the second half of last year. GDP rose by 0.4% quarter-on-quarter in the euro area and by 0.5% in the EU28; growth was substantially higher than the 0.2% quarter-on-quarter registered in the euro area and the 0.3% in the EU in the final quarter of 2018.

GDP growth was mainly led by robust private consumption and fixed investment, whereas net trade also contributed to growth owing to a mild increase in exports in spite of the continuation of weak international trade conditions. Moreover, the relatively mild weather in the first quarter bolstered construction activity across the EU. Meanwhile, the manufacturing sector continued to struggle, although the first readings for industrial production in early 2019 suggest that the slowdown that characterised most of 2018 may have bottomed out.

At the individual country level, the German economy contributed to the acceleration in EU economic growth; GDP growth bounced back from having been trapped in quasi-recessionary conditions in the second half of 2018. The Spanish economy remained the best performer among the large eurozone countries; GDP growth strengthened further to 0.7% quarter-on-quarter in the first quarter of 2019. Much in contrast, economic conditions in Italy are still depressed, although the Italian economy came out of recession. Meanwhile, the French economy remained on relatively sound footing, growing by 0.3% quarter-on-quarter, whereas the UK's Q1-2019 0.5% growth figure was probably flattered by precautionary stock building.

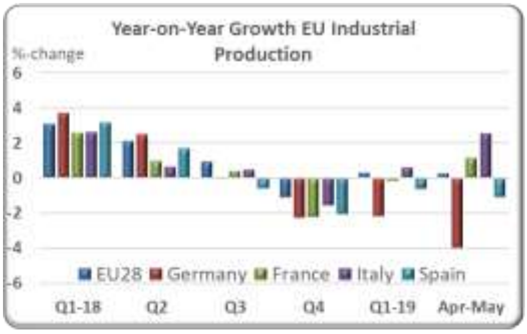
CONFIDENCE INDICATORS

Forward looking indicators for the EU remain soft and suggest that the improvement in economic performance seen in the first quarter may not last over the coming quarters.

The European Commission's business and consumer survey for June signals that economic sentiment in the EU decreased markedly in the euro area as well as in the EU28. This deterioration was largely driven by weaker confidence in industry and - to a lesser extent - in the service sector and among consumers. Industrial confidence is now, for the first time since autumn 2013, slightly below its long-term average due to managers' more pessimistic assessment of production expectations, order books and stocks of finished products. Meanwhile, sentiment improved in the retail sector and in construction. Worryingly, economic sentiment decreased in all large euro area economies, but most of all in Germany.

The most recent IHS Markit Eurozone PMIs give comparable indications. The Composite PMI index rose to 52.1 in June, slightly up compared with May and the highest reading since November 2018. However, growth was entirely driven by the service sector, while the manufacturing sector remained in decline, with output falling for the fifth month in a row. Underlying data on operating conditions by market segment of the manufacturing PMI signal that the intermediate and investment goods segment recorded contractions while the consumer goods segment showed an improvement.

Slowing global economic growth and trade tensions in combination with Brexit-related uncertainty continue to hurt the European manufacturing sector. Although global trade is showing first tentative signs of stabilising, new trade tensions could easily lead to a deterioration in business conditions and a further worsening of industrial malaise over the remainder of 2019.



Hard data for industrial production, over the first five months of 2019, show that production in the EU stabilised at the same level as last year. However, at the country level strongly diverging trends can be observed. In Germany, production fell by 2.2% year-on-year over the first quarter and contracted even by 4% over the April-May period. Spain also remained on a negative trend compared with the same period of 2018. In France and Italy, production activity bounced back from the downturn in the fourth quarter of last year. In combination with weak business confidence levels, the short-term outlook for industry in general and for the export-oriented German industrial sector in particular remains subdued.

ECONOMIC FUNDAMENTALS

For the time being, the global trade outlook look set to remain the key uncertainty in the economic scenario of the EU.

In the first quarter of 2019 global trade had been showing some tentative signs of stabilisation. The stabilisation was basically driven by some of the emerging markets in Asia, which also were largely responsible for the previous deterioration in international trade conditions. However, April data for global trade volumes show a 0.7% month-on-month drop, due to weaker export growth in emerging Asia, the US and the euro area. This seems to be consistent with the continuation of the fragile global economic situation and as a result weak demand conditions. Particularly the US and China are at risk of losing economic momentum going forward. Meanwhile, there is little hope that ongoing trade tensions will ease any time soon. Further escalation would imply that economic damage is likely to increase.

The current softness in global demand, combined with ongoing trade frictions, are placing the manufacturing sector in the EU at risk. In particular, potentially greater protectionism relating to the automotive sector would pose a major challenge to the automotive value chain.

The performance of domestic demand in the EU is less of a concern at this point in time.

Economic indicators

Year-on-year change in %

EUROFER Forecast	2017	2018	2019 (f)	2020 (f)
GDP	2.5	1.9	1.4	1.5
Private consumption	2.0	1.6	1.7	1.6
Government consumption	1.0	1.0	1.6	1.3
Investment	3.4	3.0	2.0	1.7
Investment in mach. equip.	3.6	3.2	1.3	1.8
Investment in construction	4.0	3.0	2.2	1.8
Exports	5.6	3.0	2.7	3.0
Imports	4.8	3.2	3.7	3.2
Unemployment rate	8.2	7.5	7.1	6.8
Inflation	1.6	1.8	1.5	1.5
Industrial production	3.3	1.5	0.9	1.6

(f) = forecast

This is particularly true for private consumption. Although the pace of job creation is slowing, the EU28 unemployment rate came down to 6.3% in May, the lowest rate recorded since the start of the series in January 2000. Tightened labour markets have been driving a pick-up in wages, which are now rising at their fastest pace in a decade. Together with lower inflation – euro area annual inflation was estimated at 1.2% in June by Eurostat - this will provide a welcome boost to real incomes and should provide solid support to household spending. Private consumption is expected to grow by 1.7% in 2019 and by 1.6% in 2020.

The outlook for investment is much more uncertain. Although investment in the first quarter surprised on the upside, ongoing concerns about the slowing global economy and weakening export markets, combined with Brexit-related uncertainty, trade wars and increasing geopolitical risks shape an business environment that has the potential to dampen business sentiment and lead to lower growth in corporate spending and investment than currently forecast for this year and next (2.1% and 1.8% in 2019 and 2020, respectively). Positive factors that may soften this threat are the continuation of very loose monetary conditions and easy access to and low cost of financing, the robust performance the residential property markets and the strength of the service sector.

In combination with mild growth of government expenditure, the EU economy is expected to remain largely driven by domestic demand.

In recognition of the ongoing weakness in international trade in an environment of prolonged global uncertainties, which are weighing in particular on the euro area manufacturing sector, the European Central Bank (ECB) agreed to keep key interest rates at their present levels at least through the first half of 2020, and in any case for as long as is necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term. Moreover, the possibility of additional stimulus measures to counter the negative impact of slowing global growth and trade uncertainty, including the reactivation of the asset purchase programme, is also being investigated.

GROWTH OUTLOOK FOR 2019-2020

Over the past few months the outlook for the global economy has further deteriorated and downside risks have intensified rather than declined. The broad-based slowdown in growth of international trade particularly affects industrial supply chains in the EU.

The likelihood of increasing economic fragility in the two largest economies of the world - the US and China - do not bode well for global economic growth and trade conditions in the second half of 2019 and in 2020. Given its relative sensitivity to global economic trends, the EU economy is expected to enter a period of below-trend growth. However, growth of domestic demand is forecast to remain sufficiently resilient to prevent the EU economy from sliding into recession.

The main downside risk for the EU economy is a deepening escalation of the trade war between the US and several of its main trading partners, followed by a no-deal Brexit, through a further deterioration in business sentiment and lower investment growth. This would spell trouble for the manufacturing sector in the EU, in particular for those countries that rely to a significant extent on exports.

EUROFER’s third quarter 2019 forecast for EU GDP growth is 1.4% in 2019 and 1.5% in 2020.

THE EU STEEL MARKET: FINAL USE

OUTLOOK FOR STEEL-USING SECTORS

The steel-using sectors in the EU remained stuck in a rut in the first quarter of 2019. Production activity was in particular negatively affected by a sharp drop in automotive output, but most other sectors also struggled. Persistent external threats continue to cloud the outlook for the steel using sectors for the remainder of 2019, whereas a slight rebound is expected for 2020.

CONSTRUCTION INDUSTRY

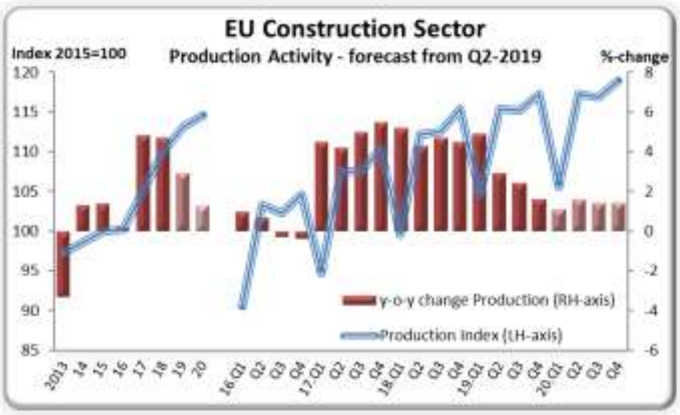
The performance of the EU construction sector over the first quarter of 2019 was surprisingly positive, supported by mild weather conditions. The rate of expansion remained very close to the average quarterly growth rate of production registered in 2017 and 2018. The sector is set for a third consecutive year of relatively strong production growth.

Construction industry output

EU production activity rose by 4.9% year-on-year in the first quarter of 2019; the ninth quarter in succession of robust expansion in the EU construction sector. The sector remained the best performing key steel using sector.

Construction industry activity in the first quarter of 2019

In the first quarter of 2019, construction activity grew in all reporting countries except Slovakia. Output growth was particularly vigorous in Spain, Sweden, Austria, the Netherlands and Poland. In contrast, production activity stabilised around the year earlier level in France and registered only very slight growth in Italy. Meanwhile, activity rose at a healthy pace in the other European countries.



In Western Europe, robust order books for residential and non-residential building projects supported the continuation of solid production growth in the sector. Mild weather conditions in the first quarters provided additional support to activity growth in the majority of the reporting countries. In Spain, Germany and the Netherlands real estate markets remained in an expansionary phase, driven by strong private demand for housing and supported by rising incomes and easy access to financing. In tandem, private and public investment in non-residential construction also gained traction. Moreover, there is evidence that civil engineering activity is also gaining track in several countries, owing to improving investment in infrastructure projects.

In the Central European countries – with Poland as most important market - construction activity growth remained driven by strong and steady infrastructure demand. The pace of EU-funded investment picked up in the first quarter owing to an increase in financial transfers. In addition, the continuation of healthy economic conditions in the region provided support to central and local government investment. Meanwhile, residential and non-residential activity continued to gain momentum across the region.

Construction industry forecast 2019-2020

Prospects for the EU construction sector are relatively positive. The EU construction confidence indicator remained well above its long-term average over the first half of this year, thanks to the steady industry managers' assessment of order books, employment expectations and current activity levels. Nevertheless, the rate of expansion of construction activity will gradually slow. This is not only due to demand-related factors such as weakening economic fundamentals and a general cooling of market dynamics after several years of strong growth, but also the result of supply-side issues, most importantly bottlenecks in construction capacity and a lack of skilled labour.

In 2019, the slowdown will be cushioned by solid order books, whereas in 2020 it will become more visible in the activity growth rates in construction in most EU countries. Nevertheless, the construction industry will outperform the other steel-using sectors with regards to the expected trend in production activity.

The residential construction market is expected to remain relatively buoyant as in several countries there is still a shortage of housing with demand outweighing supply. Nevertheless, this market will be facing a cyclical slowdown after a multi-year rebound, much in tandem with weakening prospects for the EU economy and the related faltering growth of public and private construction investment. The pressure on the market from refugee housing is also expected to ease. Meanwhile, improving wages and the low cost of financing will continue to provide support to demand for both new housing and renovation and modernisation work.

Intensifying headwinds from weakening business confidence and corporate investment will hamper production activity growth in the non-residential sector, particularly in commercial and industrial construction. The struggling manufacturing industry in Europe will most likely postpone investment, particularly in projects related to the performance of the export sector. Moreover, the still unknown impact of Brexit on business conditions in the EU also has the potential to delay investment decisions.

Meanwhile, the role of civil engineering as a growth driver for total construction growth is expected to strengthen over the forecast period. Infrastructure projects aimed at securing and promoting economic development and growth will benefit from increasing investment by national governments or public-private partnerships. This is particularly true for energy, transport and communication network projects. In addition to initiatives financed by national authorities, the EU Cohesion Policy will invest €4 billion of EU funds in 25 large infrastructure projects in 10 Member States. The investment package involves Bulgaria, Czechia, Germany, Greece, Hungary, Italy, Malta, Poland, Portugal and Romania. The projects cover a wide range of areas: health, transport, research, environment and energy.

Total EU output is forecast to rise by 2.9% in 2019 and by 1.3% in 2020.

AUTOMOTIVE INDUSTRY

Production activity in the EU automotive industry fell by 5.1% year-on-year in the first quarter of 2019 due to weak domestic and export demand for passenger cars and temporary emission-related distortions having a sharply negative impact on output.

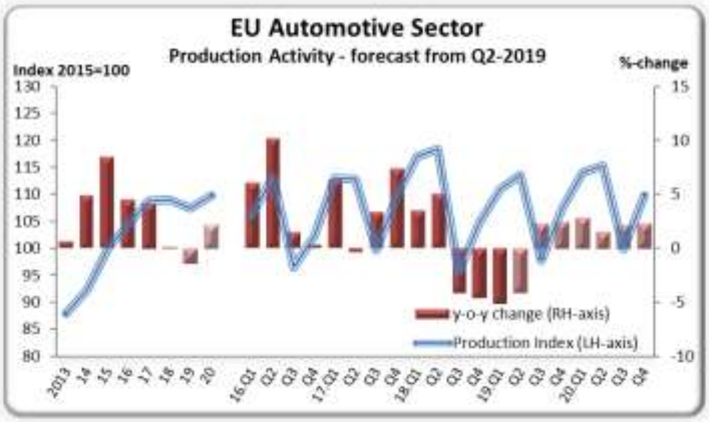
EU passenger car and commercial vehicle demand

After the drop in EU passenger car registrations over the first quarter of 2019, car sales more or less stabilised around the year earlier level over the April-May period, but fell again in June. On balance, EU car registrations fell by 3.1% over the first half of 2019. Sales more or less stabilised around the year earlier level in Germany, the French, Spanish, Italian and UK car market registered a declining trend.

Continuing the positive market evolution over the first quarter, registrations of commercial vehicles grew robustly in April and May. Over the first five months of this year, registrations of commercial vehicles rose by 6.5% year-on-year. Demand for medium and heavy commercial vehicles continued to show the strongest year-on-year growth. In all large EU markets demand for commercial vehicles rose over this period; in Germany in particular the market was very strong and recorded almost 15% growth compared with the same period of last year.

Vehicle exports to third countries remained under severe pressure over the course of the first five months of 2019 due to weakening demand in key global markets. Exports of German and UK manufactured cars fell by double-digits.

Automotive sector activity in the first quarter of 2019



Production activity in the EU automotive industry fell by 5.1% year-on-year in the first quarter of 2019. The negative trend in domestic sales of passenger cars in Europe, model changes and strong base effects from stock building prior to the implementation of new procedures for emission testing had a negative effect on output in most EU countries. Production in Germany and Italy fell by around 10% year-on-year, and most other western-European countries also registered declines in output. Generally speaking, production held up better in central Europe, reflecting better local demand conditions as well as rationalisation decisions taken by OEM with multiple productions locations across Europe.

Automotive industry forecast 2019-2020

Chances that passenger car sales in the EU will register growth in 2019 are diminishing. Although in principle economic fundamentals should remain supportive to car demand, strong replacement demand in recent years and uncertainty about the impact of the move from combustion engine-powered to electric vehicles on cost of car ownership are expected to dampen new car sales. The timeline of the move to electric vehicles is increasingly being set by national and even local government policies designed to cut carbon dioxide emissions. However, still low penetration rates of fully electric cars signal the challenges both car buyers and the automotive industry are facing if the aspirations of the authorities are to be met.

Sluggish car demand from key markets such as the US, China and Turkey will continue to dampen exports; rising domestic production in the emerging markets is another headwind for EU car manufacturers.

Meanwhile, some relief is provided by the commercial vehicle market segment owing to companies investing in a greener transport fleet. Reduction of maintenance costs, the availability of government incentives for zero- and low-emission vehicles and businesses increasingly focusing on improving their environmental credentials have been stimulating demand for electric, plug-in hybrids, CNG or and hydrogen-powered vehicles.

In 2020, the WLTP distortions fading out combined with a mild pick-up in car demand and the introduction of new (electric) models by most European car producers should lead to car sales resuming a positive trend. The commercial vehicle segment is expected to continue to grow, albeit at a slower rate than in 2019.

Trade-related risks are considerable and are becoming more heavily skewed to the downside. Higher tariffs imposed on EU-produced cars either by the US or the UK would result in major supply chain disruptions in the EU automotive sector in general and in Germany in particular.

This implies that the outlook for the EU automotive sector is sluggish. In addition to the demand trends mentioned above, major intra-European production shifts are to be expected as OEMs increasingly put their stakes on the shift towards electric powertrains, motivated by rising demand, government policies and new entrants into the market. Volvo, Ford, Jaguar Land Rover and Toyota have already announced that their entire product mix of passenger cars will be electrified to a significant degree within the next decade. This implies that they will have to curtail excess capacity to free up funds for further investment in alternative powertrains solutions. Localisation is another trend that will undermine EU production for export markets.

EU automotive production is forecast to fall by 1.4% in 2019 and to rise by 2.2% in 2020.

MECHANICAL ENGINEERING

Production activity in the EU mechanical engineering sector was sluggish in the first quarter of 2019.

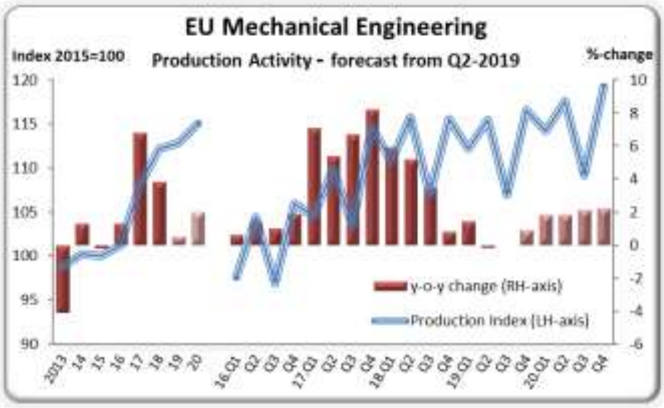
Mechanical engineering output

Growth of production activity in the EU mechanical engineering industry was 1.4% year-on-year in the first quarter of 2019. Owing to still high order backlogs, negative underlying trends in global demand for machinery and equipment and as a consequence falling order intakes did not yet fully show in the production figures. Nevertheless, it is clear that business conditions for the EU mechanical engineering sector deteriorated since the start of 2019.

The slowing global economy in combination with weakening economic growth in the EU implies that demand for mechanical engineering products is on a downward trend. Capacity utilisation in the manufacturing sector is falling and thus limits the need to install additional capacity to fulfil demand, while due to continued uncertainty in the key downstream client sectors of the mechanical engineering industry investment decisions are being postponed. In particular the risk of a possible escalation of trade wars and the possibility of a no-deal Brexit has put pressure on the propensity to invest.

Mechanical engineering activity in the first quarter of 2019

Even though production activity still grew by 1.4% year-on-year in the first quarter of 2019, underlying trends are more adverse than this growth figure suggests with sharply diverging trends at the individual country level.



Growth was negative in Germany, the Benelux and the UK, more or less stable compared with the same period of 2018 in Italy and remained on a growing trend in the other reporting EU countries.

At the subsector level, machine tools, mining and construction machinery performed better than general purpose and agricultural machinery.

Mechanical engineering forecast 2019-2020

The outlook for the mechanical engineering sector in the EU remains rather subdued, particularly in 2019. So far this year, order intakes have been on a falling trend and resulted in a gradual depletion of existing order books; this is particularly true for export orders. This will start to show more prominently in production data for the second and third quarter of this year; production is forecast to grind to a halt over that period. Currently there are no indications that suggest that international trade conditions should improve anytime soon. Growth of EU investment in machinery and equipment is expected to slow markedly this year, after three years of rather strong expansion and as a consequence robust domestic EU demand for capital goods. The softer euro and easy credit conditions will only partly be able to cushion these negative demand-side fundamentals. Production activity is forecast to rise by 0.5% in 2019

Business conditions are expected to improve somewhat in 2020 as uncertainty on the foreign environment starts to fade on the assumption that a Brexit finally comes to conclusion. This will have a positive impact on investment intentions, both on the continent and in the UK. Moreover, at the recent G20 summit in Osaka the US confirmed it would hold off raising tariffs on more than $300 billion worth of Chinese goods while negotiations to end the trade war between the two countries continue; this provides some hope of at least a stabilisation in trade relations between the two largest global economies and possibly a final settlement of the ongoing trade dispute. This should both reduce uncertainty for exports and provide support to a rebound in international trade.

Production activity is forecast to rise by 2% in 2020.

STEEL TUBE INDUSTRY

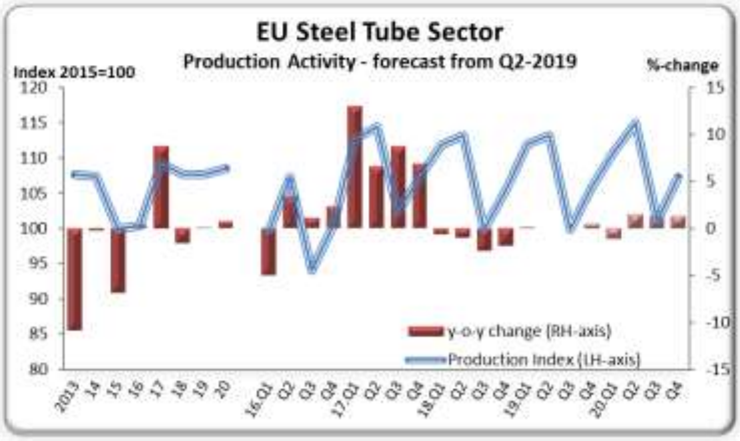
Production activity in the EU steel tube industry stabilised around the year earlier level in the first quarter of 2019. This suggests that the downward correction in output levels of steel tube manufacturers due to weakening demand for large welded tubes from the energy sector has bottomed out.

Steel tube industry output

In the first quarter of 2019, output in the EU steel tube industry stabilised at the production level registered in the same quarter of the previous year, after four consecutive quarters of contracting output in 2018. At the country level, the divergence in output trends was significant. In Central Europe in general as well as in the UK, the Netherlands and Austria production activity rose compared with the same period of 2018; in contrast, Germany, France, Italy, Spain, Belgium and Sweden reported a negative production trend.

Steel tube industry activity in the first quarter of 2019

The stabilisation of production activity in the steel tube industry in the EU in the first quarter of 2019 suggests that the sector has digested the change in market conditions due to the sharp reduction in demand for large welded tubes from the energy sector. In Germany, the reduction in output in 2018 as a result of the depletion of order backlogs for large pipeline projects has been significant.



The stabilisation in steel tube output also implies that the trend in steel tube output is now more strongly aligned with the production activity in the other customer segments of the EU tube industry. While the construction sector still benefits from rather benign business conditions, production activity in the manufacturing industry in general and in the automotive, mechanical engineering and metal goods sector in particular is under pressure due to weakened demand for small and medium-sized welded tubes and seamless tubes. At the same time, international competition in the commodity segments of the EU steel tube market is fierce.

Steel tube industry forecast 2019-2020

Business conditions in the steel tube industry in the EU are expected to remain challenging in 2019 and 2020.

There is little hope that the energy market will revive any time soon as a result of strengthening demand for large welded tubes. While oil prices rebounded earlier this year, prices are still significantly lower than at their peak in 2018. Weakened oil sector margins imply that for the time being investment will be scaled down. Meanwhile, the outlook for demand for large welded tubes from the gas sector remains highly uncertain. The Nordstream 2 project is troubled by a complicated mix of political and commercial issues. Denmark has not yet issued a permit for the construction of the pipeline in its territorial waters, while the other countries involved in the project – Germany, Sweden, Finland and Russia – have already done so. At the same time, the European partners of Gazprom in the project – Wintershall, Uniper, Shell, Engie and OMV – face US sanctions because the US authorities fear that the project will increase EU's dependence on Russia while the Ukraine will be bypassed and lose its transit fees. Meanwhile, demand from the wind energy sector will provide some support to the workload of the mills specialised in the production of large welded tubes.

Demand projections for the other steel tube market segments are on balance rather subdued. The construction sector provides the best perspective for moderate growth in consumption of steel tubes and hollow sections for constructional applications. In contrast, tube demand from the automotive and engineering sectors is expected to be rather weak, particularly in 2019; a mild improvement is expected for 2020.

Import pressure on steel tube markets in the EU will remain high; this also reflects diversion of steel tube shipments from the US market to the EU due to the section 232 import tariffs applied on steel tube imports by the US government.

Total steel tube output in the EU is expected to stabilise at the year earlier level in 2019 and register a marginal increase by 0.7% in 2020.

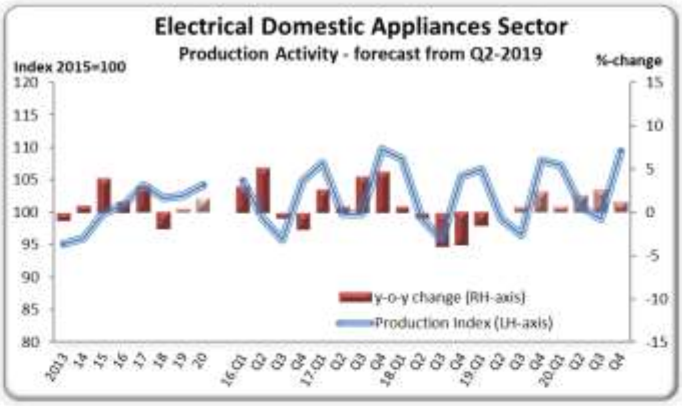
ELECTRICAL DOMESTIC APPLIANCES INDUSTRY

Production activity in the electrical domestic appliances industry fell by 1.6% in the first quarter of 2019.

Electrical domestic appliances output

Production activity in the EU's electrical domestic appliances sector fell by 1.6% year-on-year in the first quarter of 2019. Revised output data for the second half of 2018 signal that the reduction in output over the whole year 2018 was more negative than previously expected. This reinforces the weakening trend in production of the electrical domestic appliances sector in the EU since the second quarter of 2018.

Electrical domestic appliances industry activity in the first quarter of 2019



The 1.6% year-on-year drop in production activity in the electrical appliances sector hides sharply diverging trends at the individual country level. Output growth remained on a negative trend or slipped into negative growth in Germany, France, Italy, Belgium, Spain, Austria and Slovakia while production grew in the other Central European countries - Poland, Hungary and the Czech Republic – as well as in the UK and the Netherlands. Following positive market conditions in 2017 - supported by favourable economic conditions, rising consumer confidence and improving wages - demand growth slackened in the first quarter of last year and reversed into a decline over the remaining quarters on 2018.

Electrical domestic appliances industry forecast 2019-2020

EU demand for electrical domestic appliances is largely driven by replacement demand; this is particularly true for the Western European market. In this market, consumer patterns vary significantly between countries and as a result the market is rather fragmented and characterised by a large variety in manufacturers, brands and retail channels. Additional new sales depend strongly on demographic trends such as the increase in single-person households and sales activity in the real estate markets. In Central and Eastern Europe new sales are still growing, whereas replacement demand is emerging.

Economic fundamentals will remain on balance supportive to private consumption. Tightened labour markets have been driving a pick-up in wages, which are now rising at their fastest pace in a decade. Together with lower inflation this will provide a welcome boost to real incomes and should provide solid support to household spending. Prospects for sales activity in the real estate markets are rather positive, although rising house prices may discourage first-time buyers to enter the market, despite the existence of government support for this group of buyers in some countries.

With regards to the demand perspectives for the key market segments, built-in kitchen appliances and energy-efficient appliances are expected to be best positioned for growth over the short to medium term. Product offerings of smart household appliances in the European market are increasing; demand for these products may benefit from the roll-out and improved access to high speed internet, the gradual introduction of smart energy meters allowing for consumer to better monitor energy efficiency and energy savings as well as EU policies to support the digital economy in Europe. Younger people in particular may find more value in the concept of smart homes and connected devices, mainly because of the convenience that these devices offer.

Meanwhile, international competition and price pressure will remain fierce in this market, especially in the lower and medium quality segments, rather than in the high-end market segment. Moreover, the sector is suffering from structural overcapacity which has led to OEMs trying to achieve as much as possible economies of scale and capacity management to be dominated by localisation strategies, focusing on ‘producing where you sell’.

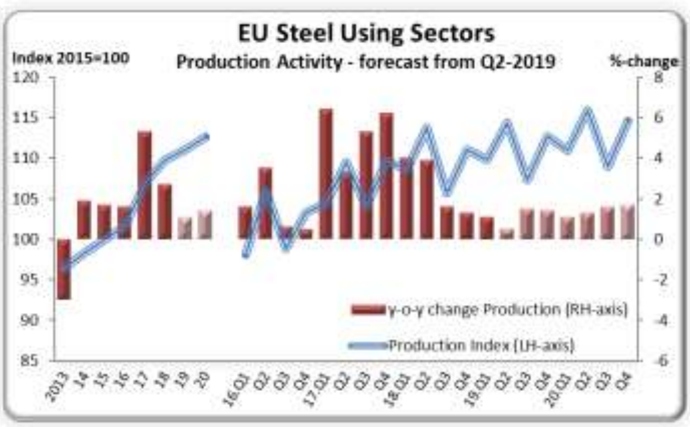
Production activity in the EU is forecast to rise by 0.4% in 2019 and to rise by 1.6% in 2020.

TOTAL STEEL-USING SECTORS OUTPUT

Total production activity in EU steel-using sectors grew by 1.1% year-on-year in the first quarter of 2019; this basically reflects a decline of activity in the euro area and an increase in the Central European region.

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

Total production growth in EU steel-using sectors lost further momentum in the first quarter of 2019.



From the peak in the final quarter of 2017, deteriorating business conditions in the manufacturing industry in general and in the automotive industry in particular led to an ongoing moderation in output growth in the steel-using sectors. The only sector bucking this trend is the construction industry. As the largest steel-using sector, the continued robust expansion of production in this sector mitigated the adverse impact of negative or much slower growth of production activity in the other steel-using sectors.

Overall output growth in the steel-using sectors in the first quarter of 2019 was negative in Germany, France, Italy, the UK and Belgium. Production growth was positive in the other reporting countries.

Year-on-year %-change EU Steel Weighted Industrial Production (SWIP) index												
	% Share in total Consumption	Year 2018	Q1'19	Q2'19	Q3'19	Q4'19	Year 2019	Q1'20	Q2'20	Q3'20	Q4'20	Year 2020
Construction	35	4.8	4.9	2.9	2.4	1.6	2.9	1.1	1.6	1.4	1.4	1.3
Mechanical engineering	14	3.8	1.4	-0.2	0.0	0.9	0.5	1.8	1.8	2.1	2.2	2.0
Automotive	18	0.1	-5.1	-4.1	2.3	2.4	-1.4	2.8	1.5	2.1	2.3	2.2
Domestic appliances	3	-1.9	-1.6	0.0	0.7	2.4	0.4	0.7	2.0	2.6	1.2	1.6
Other Transport	2	8.4	10.9	9.2	4.8	2.7	6.9	2.3	2.2	2.3	2.3	2.3
Tubes	13	-1.5	0.1	0.0	0.0	0.5	-0.2	-1.1	1.5	1.3	1.3	1.0
Metal goods	14	3.1	0.4	0.5	0.1	0.3	0.3	0.3	0.7	1.1	1.3	0.8
Miscellaneous	2	1.8	0.4	0.5	0.1	0.3	2.2	0.3	0.7	1.1	1.3	1.4
TOTAL	100	2.7	1.1	0.5	1.5	1.4	1.1	1.1	1.3	1.6	1.7	1.4

Total steel-using sectors forecast 2019-2020

The outlook for the EU steel-using sectors in the EU is sluggish. But not just the EU is affected: the downturn in industrial activity is a global phenomenon, reflecting weakening global trade and investment. A fast rebound is unlikely because of the negative impact of US protectionist measures on trade.

For the EU, risks related to the external environment will remain the key challenge over the forecast period 2019-2020. Over the past two years, the fundamentals of global trade have clearly changed for the worse, due to the US government putting tariffs on billions of dollars' worth of goods imported from its main trading partners the EU, Canada, Mexico and China. The affected countries have responded in kind, retaliating with similar tariffs on US products.

EU's manufacturing base is suffering, particularly in those countries and sectors more exposed than average to international trade. Weakened business sentiment puts investment at risk of falling behind expectations; this would be exacerbated in case of a no-deal Brexit and a further escalation in protectionist trade measures. Automotive tariffs imposed by the US authorities on automotive imports from the EU would seriously harm the entire automotive supply chain. On the positive side, an orderly Brexit and the settlement of trade disputes between the US and its main trading partners would be a potential upside. Support is also provided by continued strength in construction.

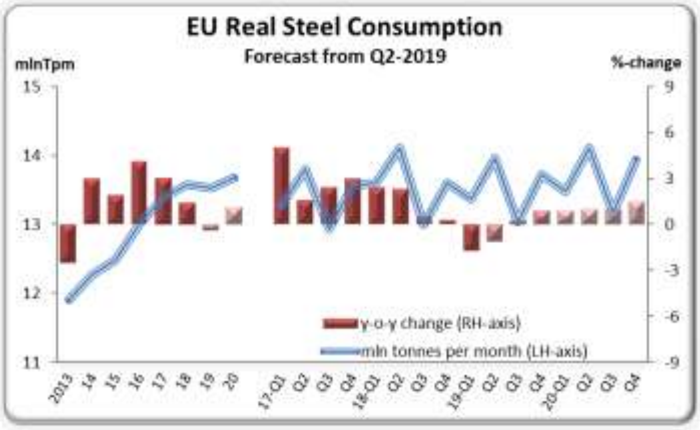
Output in the EU's steel-using sectors is forecast to grow by 1.1% in 2019 and by 1.4% in 2020.

REAL STEEL CONSUMPTION

Real steel consumption fell by 1.7% year-on-year in the first quarter of 2019 and was 40 million tonnes.

Real steel consumption in the first quarter of 2019

The marked slowdown in production activity of steel-using sectors, in combination with steel intensity becoming more negative, resulted in real steel consumption falling by 1.7% year-on-year in the first quarter of 2019.



Steel intensity - the ratio of steel consumption to steel weighted production in steel using industries – becoming more negative in an economic downturn is a rather common feature of final steel use in the downstream steel processing industries, particularly so in the engineering sectors. This has to do with investment becoming more geared towards automation, efficiency improvement, artificial intelligence and related services, which limits the material content in the product mix.

Real steel consumption forecast 2019-2020

Hesitating output growth in EU steel-using sectors over the 2019-2020 period together with an expected continuation of a negative steel intensity trend will result in the growth of real steel consumption falling by 0.4% in 2019. This will mark the first year of negative growth in EU real steel consumption since 2013.

A slight improvement in business conditions in the downstream steel-using sectors and better prospects for investment will lead to EU real steel consumption increasing by 1.1% in 2020; the impact of steel intensity is also expected to diminish somewhat.

This will result in real steel consumption reaching 162.2 million tonnes in 2019 and 164 million tonnes in 2020.

Forecast for real consumption - % change year-on-year											
Period	**Year 2018**	**Q1'19**	**Q2'18**	**Q3'19**	**Q4'19**	**Year 2019**	**Q1'20**	**Q2'20**	**Q3'20**	**Q4'20**	**Year 2020**
% change	1.4	-1.7	-1.1	0.3	0.9	-0.4	0.9	1.0	1.0	1.5	1.1

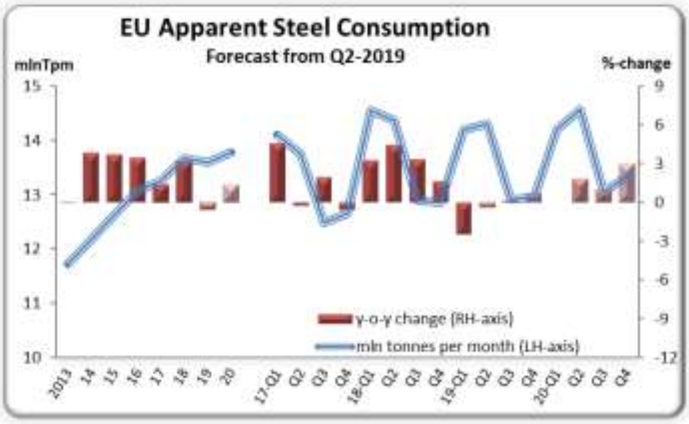
THE EU STEEL MARKET: SUPPLY

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

APPARENT STEEL CONSUMPTION

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

Apparent steel consumption in the first quarter of 2019



EU28 apparent steel consumption fell by 2.5% year-on-year in the first quarter of 2019 and amounted to 42.6 million tonnes. Stock building in the distribution chain was lower than in the same quarter of 2018, which exacerbated the negative trend in final steel use. This should be seen in context of the development of the inventory cycle in the second half of last year which was characterised by lower than usual seasonal inventory reductions and therefore relatively high stock levels in the EU steel distribution chain at the start of 2019.

EU domestic and foreign supply

The negative trend in steel demand at the start of this year has primarily hurt domestic steel producers in the EU. In the first quarter of 2019 domestic deliveries from EU mills to the EU market fell by 4% compared with the same period of 2018. Meanwhile, third country imports decreased only by 1% year-on-year and amounted to 10 million tonnes, accounting for 23.6% of EU steel demand.

The overall trend in total imports hides distortive developments in imports at the individual product level which are allowed under the current quota modalities and management. This situation has created, for several products, a rush for quota consumption including stock building and import concentration, disrupting the stagnating EU steel market, notably by Turkey and China. The most affected products are metallic coated sheets for automotive applications, rebar and wire rod.

Apparent steel consumption forecast 2019-2020

The EU steel market is facing severe challenges which are expected to have a negative impact on apparent steel consumption. Following a decline in the first half of 2019, real steel consumption is expected to stabilise just above the year earlier level, leading to a total reduction in final steel use by 0.4% over the whole year. Meanwhile, flaws in the design and functioning of the current safeguard measures do not reflect the reality of an EU steel market being squeezed between negative final steel use developments while facing the continuous serious threat of import deflection triggered by the US Section 232 import tariff in a context of persisting global overcapacity. The system still permits abnormal behaviours by exporters, which have the potential to lead to serious market distortions. The expected reduction of apparent steel consumption in 2019 of 0.6% year-on-year is therefore expected to come mainly at the expense of EU steel producers.

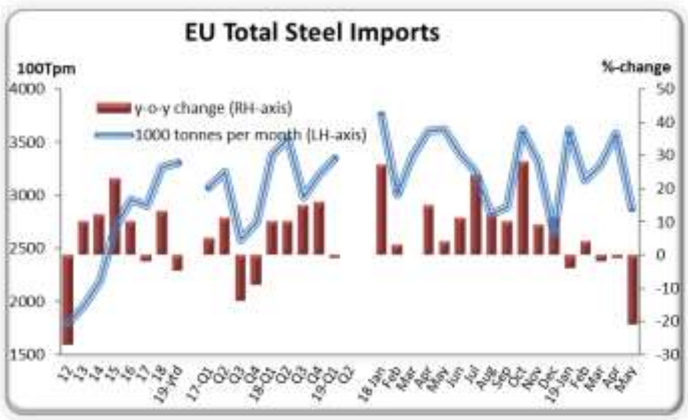
Even though market conditions in 2020 are expected to improve moderately, risks related to import distortions continue to threaten the stability of the EU steel market. The 5% increase in safeguard quota from July 2020 – following a 5% rise in February and in July 2019 – is once more not aligned with expected growth in real steel consumption of just 1.1% in 2020. The EU market therefore remains at risk of being destabilised by third country imports, at the expense of EU domestic producers. Nevertheless, the mild increase in final steel use is expected to lead to apparent consumption growing by 1.4% in 2020.

	EU apparent steel consumption - in million tonnes per year									
Year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019 (f)**	**2020 (f)**
Million tonnes	148	158	141	141	146	152	157	159	164	163	165

Forecast for EU apparent steel consumption - % change year-on-year											
Period	**Year 2018**	**Q1'19**	**Q2'19**	**Q3'19**	**Q4'19**	**Year 2019**	**Q1'20**	**Q2'20**	**Q3'20**	**Q4'20**	**Year 2020**
% change	3.2	-2.5	-0.4	0.1	0.7	-0.6	0.0	1.8	1.0	3.0	1.4

IMPORTS

Total imports of steel products into the EU28 – including semi-finished products – fell by almost 5% year-on-year over the first five months of 2019. This implies that import volumes were still 7% up on the average monthly level of imports over the second half of 2018.

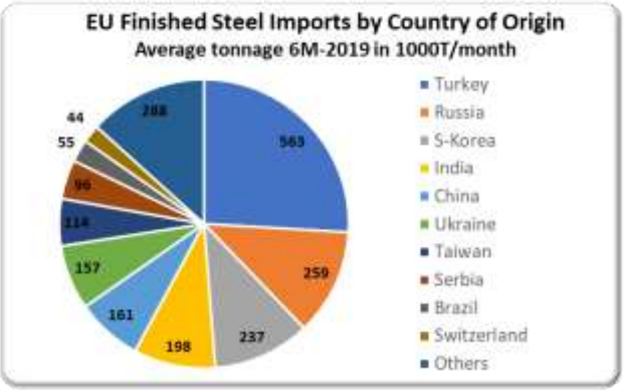


Including SURV2 data for June 2019, finished product imports fell by 15% year-on-year over the first half of the year, owing to a 7% year-on-year drop in flat product imports and a 36% reduction in long product imports.

The average monthly import volume of finished products over the first half of 2019 amounted to 2.17 million tonnes. In comparison with the average level of monthly imports over the second half of last year, total finished product imports were 7% lower. Much in contrast, semis imports rose by 27%.

Imports by country of origin

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

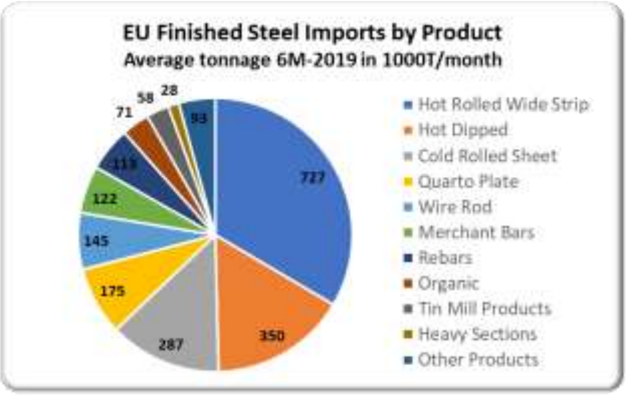


Turkey remained the largest exporter of finished steel products to the EU, capturing 26% of total EU finished steel imports over the first half of 2019. Moreover, Turkey was the only large exporter to the EU market that increased its export volumes. This was quite the reverse in the other countries of origin of EU finished steel imports.

Brazil, India, Taiwan, China, Russia, Switzerland and South Korea shipped lower volumes to the EU than in the same period of 2018. Meanwhile, imports from the Ukraine and Serbia remained relatively close to the year earlier volumes.

Imports by product category

The trend of EU imports of finished steel products in 2018 which was characterised by a massive increase in long products imports, completely reversed over the first half of 2019.

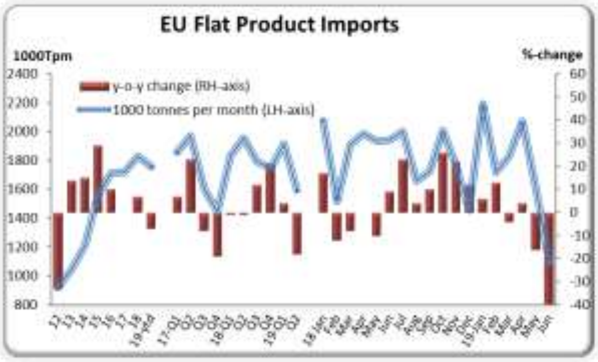


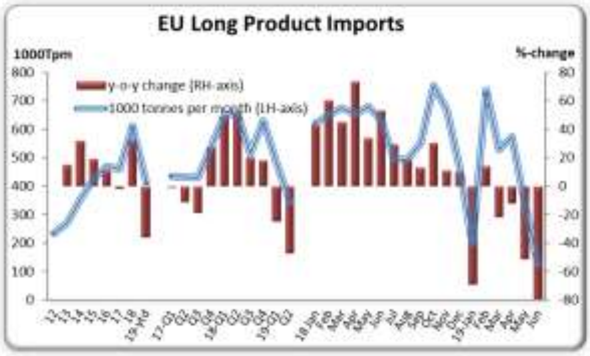
Customs data for this period show that flat product imports rose by 4% year-on-year over the first quarter of 2019, followed by an 18% drop over the second quarter; this resulted in a 7% year-on-year reduction over the first half of 2019.

Meanwhile, long product imports fell by 25% year-on-year over the first quarter of 2019 and by 47% compared with the extremely high level of imports in the second quarter of 2018. This resulted in long product imports falling by 36% year-on-year over the first half of 2019. The share of long products in total finished steel product imports was reduced to 19%.

Within the flat product market segment, hot-rolled wide strip, hot-dipped galvanised sheet and organic coated sheet imports registered, relatively, the strongest year-on-year rise (by 6%, 2% and 2% respectively) over the first half of 2019. Imports of other flat products such as cold-rolled sheet, quarto plate and tin mill products registered a decline compared with the same period of 2018.

All long product imports were significantly lower over the first half of 2019 than in the same period of 2018. The sharpest reduction was registered for rebar: imports were 35% down compared with imports in same period of 2018. Meanwhile, imports of wire rod, heavy sections and merchant bars fell by 30%, 21% and 18% year-on-year respectively.

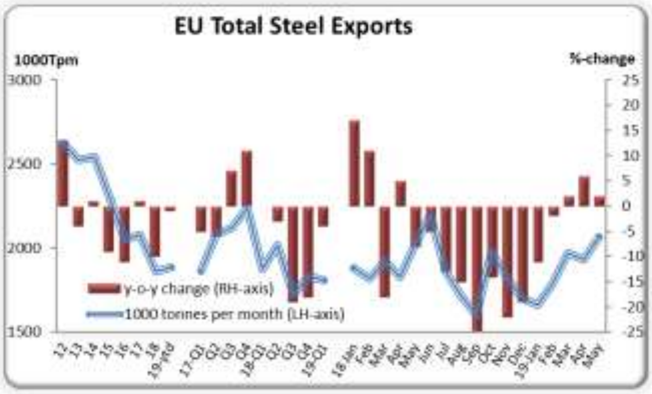




EXPORTS

Total EU exports of steel products to third countries fell by 1% year-on-year over the first five months of 2019. Exports fell by 4% year-on-year over the first quarter of 2019 and rose by 4% year-on-year over the April-May period.

This further mild reduction follows the rather strong drop in exports in 2018 and is the result of a 22% year-on-year reduction in semis exports and a 1% increase in finished steel products exports. While exports of flat products rose by 4% year-on-year, long product exports fell by 3% year-on-year.



Exports by country

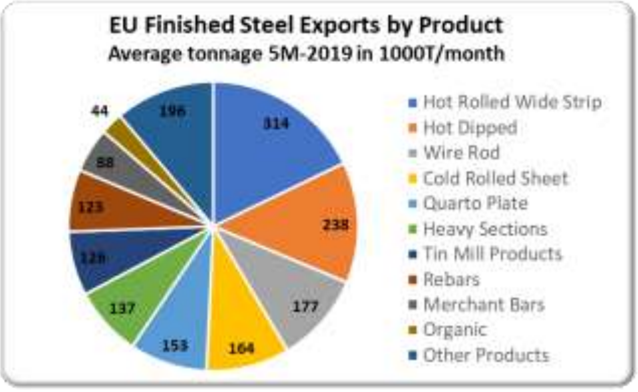
The main export destinations for EU steel exports over the first five months of 2019 were Turkey, the United States and Switzerland, followed by Algeria and Mexico. These five countries together accounted for 53% of total EU finished product exports over this period. Exports to Algeria grew by 62% year-on-year over the first five months of 2019; this rebound comes after four years of sharp declines in finished product exports to Algeria. Exports to the US rose by 2% year-on-year. In contrast, exports to Turkey declined sharply when compared with the same period of 2018; finished steel exports fell by 9% year-on-year over the first five months of 2019. Over the same period, exports to Switzerland decreased by 2% year-on-year.

Exports by product category

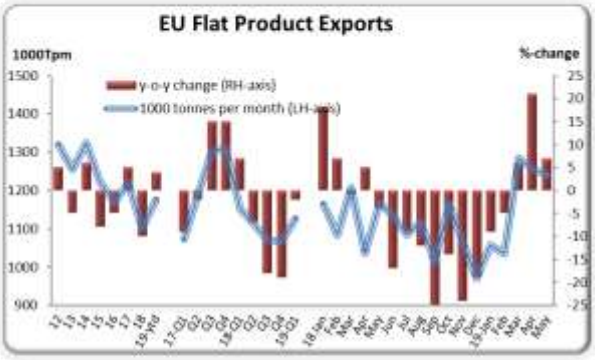
The share of semi-finished steel products within the product mix of EU steel exports remained at 6% over the first four months of 2019.

Flat product exports accounted for 63% of total exports and long product exports accounted for the remaining 31%.

Underlying figures for exports by product group show widely diverging trends. Within the flat product segment, exports of hot-rolled wide strip, organic coated sheets and tin mill products rose significantly, whereas exports of cold-rolled sheet, hot-dipped metal coated sheets and quarto plate registered a year-on-year decline over the first five months of 2019.



With regard to long product exports, rebar exports were significantly higher than a year ago, whereas wire rod exports were only slightly up compared with the same period of 2019. A decline was registered in exports of merchant bars and especially in heavy sections.



Trade balance

The trade deficit in semis deepened to 0.82 million tonnes per month over the first five months of 2019. The net trade deficit in finished products was 0.6 million tonnes per month over this period due to a deficit in flat products of 0.71 million tonnes per month and a slight surplus in long products of 0.11 million tonnes. The total trade deficit in semis and finished products over the first five months of 2019 was 1.42 million compared with an average monthly deficit of 1.41 million tonnes in 2018.

As far as the trade deficit at the level of individual trade partners is concerned, by far the largest trade deficit exists with Turkey; over the first five months of 2019 the deficit was 0.32 million tonnes per month compared with on average 0.25 million tonnes per month over the whole year 2018. Other trade partners of the EU whose exports to the EU surpass their imports from the EU were South Korea, India, Taiwan, China, Russia and Ukraine. The two latter countries have not only a trade surplus with the EU in finished products but also in semis; together they account for 87% of EU's total trade deficit in semi-finished steel products. The major destination countries for EU finished steel exports with a trade surplus over the first five months of 2019 were the US, Switzerland and Algeria.

GLOSSARY OF TERMS

Sector definitions according to NACE Rev.2

Building & Civil Engineering

41 Construction of buildings

42 Civil engineering

43 Specialised construction activities

25.1 Manufacture of metal structures and part of structures

25.2 Manufacture of tanks. generators. radiators. boilers

Mechanical Engineering

28 Manufacture of machinery and equipment

27.1 Manufacture of electric motors. generators. transformers

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

Automotive

29 Manufacture of motor vehicles and trailers

Domestic Appliances

27.51 Manufacture of electric domestic appliances

Other Transport Equipment

30 Manufacture of other transport equipment

30.1 Building and repair of ships

30.2 Manufacture of railway locomotives and rolling stock

30.91 Manufacture of motorcycles

Steel Tubes

24.2 Manufacture of steel tubes

Metal Goods

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

Other sectors

26 Manufacture of computer. electronic and optical products

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

EU STEEL MARKET DEFINITIONS

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

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

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

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

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

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

ABOUT THE EUROPEAN STEEL ASSOCIATION (EUROFER)

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

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

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

ABOUT THE EUROPEAN STEEL INDUSTRY

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

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

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