



EUROFER
The European Steel Association

ECONOMIC AND STEEL MARKET OUTLOOK 2018-2019

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ECONOMIC AND STEEL MARKET OUTLOOK 2018-2019

INTRODUCTION

In 2017 the EU's steel market performed healthily, supported by a marked improvement in business conditions on both domestic and international markets. Key drivers were investment and exports. While economic fundamentals bode well for further growth in EU steel demand, the increasing threat of protectionism and the potential of retaliatory measures leading to a global trade war is the key risk to an otherwise positive outlook.

EU steel market overview

EU28 apparent steel consumption fell by 0.3% year-on-year in the fourth quarter of 2017.

Similar to the trend in supply flows registered in the third quarter of 2017, domestic deliveries to the EU market also rose in the fourth quarter – by 3.4% year-on-year – whereas imports from third countries were 9% lower than in the same period of 2016. Total steel imports fell by 1.8% in 2017, reflecting a 7.9% year-on-year rise over the first half of the year and an 11% year-on-year drop over the second half.

While the EU market has seen an increase in inventories in 2016, the rather rapid expansion of final use over the year 2017 – and even supply bottlenecks – led to players in the distribution chain drawing down inventories later in the year. This led to a modest overall decline in stocks. As a consequence, EU28 apparent steel demand rose by 1.3% in 2017.

Prospects for a continued recovery in EU steel demand are positive. The expected strength of most steel-using sectors bodes well for the demand side of the EU steel market. However, the supply side situation could be negatively affected by import distortions.

This is particularly true within the current context of the increased risk of a sudden surge of imports in the wake of the US' decision to impose blanket tariffs on foreign steel. This may cause a significant deviation of otherwise US-bound steel trade flows towards the EU market.

EU steel-using sectors

Production activity in EU steel-using sectors ended the year 2017 on a strong footing, with output rising by 5.8% year-on-year in the fourth quarter. Total output rose by 5% over the whole year 2017. Most sectors had their best performance since 2011. The main exception was the automotive industry where as expected output growth slowed down, reflecting a mild weakening of demand in the EU and in key export markets.

Total production activity in the steel-using sectors is estimated to have grown by 2.7% in the first quarter of 2018. This is basically the result of a negative trend in steel tube output in the EU. Prospects for 2018 and 2019 are quite healthy. It was already anticipated that due the temporary impulse from the steel tube sector falling away, total activity growth in the steel-using sectors would ease in 2018 and 2019. Slowing production growth in the automotive sector will also have a mitigating impact on the growth rate of activity in the steel-using sectors.

Output in EU's steel-using sectors is forecast to grow by 2.8% in 2018 and by 1.9% in 2019.

EU economic context

The EU economy grew by 2.5% in 2017, its best performance since 2007.

Economic sentiment weakened in the first quarter of 2018. This downward trend appears to be more strongly linked with supply chain bottlenecks in industry than with a sudden weakness in demand, prospects for a continuation of the current upturn in capital expenditure are positive. Support is provided by easy access to finance and still solid confidence levels.

Exports are also expected to continue to contribute to economic growth. The outlook for global economic growth bodes well for international trade. However, the increasing threat of protectionism and euro strength could dampen potential export growth.

Eurostat's preliminary flash estimate for the first quarter of 2018 signals GDP growth of 0.4% quarter-on-quarter in the EU28.

EUROFER forecasts EU GDP growth of 2.2% in 2018 and of 1.9% in 2019.

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EU ECONOMIC OUTLOOK 2018-2019

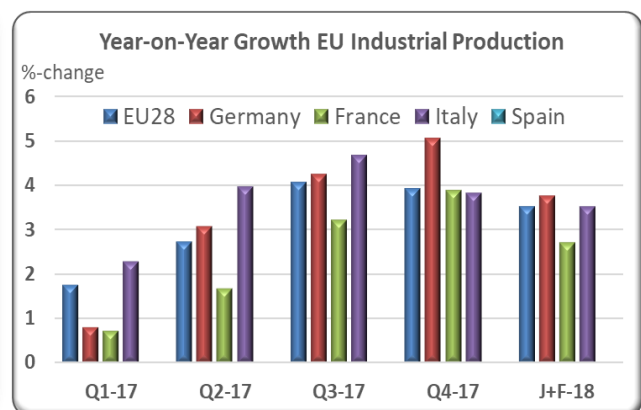
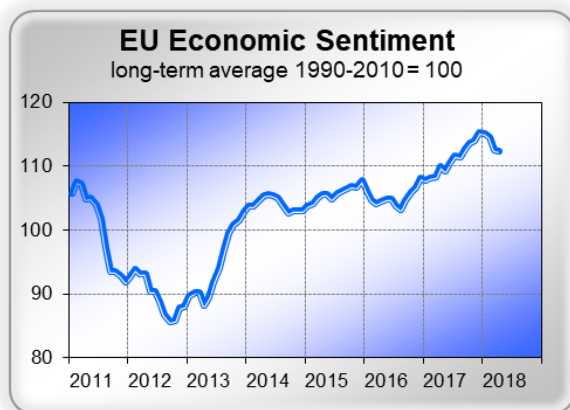
GDP GROWTH

In the fourth quarter of 2017 the EU economy expanded by 0.6% compared with the previous quarter. Over the whole year 2017, GDP rose by 2.5%; its best performance since 2007. Economic growth in the final quarter of last year mainly came from net exports and investment. Conversely, household spending was less robust than suggested by the improvement in consumer sentiment, posting an increase of less than 0.5%.

CONFIDENCE INDICATORS

Economic sentiment in the euro area and EU28 had been slipping over the first quarter of 2018 before stabilising in April, according to the monthly business and consumer surveys conducted by the European Commission. The drop in sentiment was particularly the result of a deterioration of industrial confidence, but also in services and the retail trade sector sentiment weakened. In April most indicators stabilised at elevated levels or found their way up again.

A similar trend can be observed in the IHS Markit surveys on the assessment of activity in manufacturing and the services sector. The reading of the Eurozone Manufacturing PMI slowed to 56.2 in April, a 13-month low



Several factors may have played a role in the drop in industrial confidence. Firstly, industrial production growth accelerated quite sharply during 2017. The resulting 'growing pains' led to an increase in backlogs and delivery times as well as rising supply chain shortages and input costs. In combination with skill shortages in several countries, it had a negative impact on supply chain flexibility in the EU. The assessment of current and expected industrial activity was also negatively impacted in some northern EU regions by bad weather conditions. Production data for January and February 2018 tend to show continued, but more moderate, growth rates.

Secondly, it seems likely that EU exporters are beginning to feel the impact of the strength of the euro versus other major currencies. Since mid-2017 the euro has gained another 13% compared with the US dollar without having had a noticeable impact on the Eurozone's export performance. The less optimistic assessment of export orders since the start of this year appears to suggest that price competitiveness of EU products and service is becoming more of an obstacle than before.

Thirdly, in recent months increasing protectionism fuelled concerns about a proliferation of retaliatory measures and eventually full-blown trade wars. This should be seen in particular in the context of Section 232 and 201 investigations and related recently announced protectionist measures by the US government. With economic growth in the EU still reliant on foreign trade, any surge in protectionism could put the brakes on export growth and backfire on the economic performance of the EU.

ECONOMIC FUNDAMENTALS

Despite softer survey readings and hard data, economic fundamentals remain robust overall. The strength of the labour market, combined with moderate inflation and indications that real wage growth may be gaining some momentum, bodes well for private consumption growth.

The outlook for investment also remains quite positive. Since the downward trend in industrial confidence appears to be more strongly linked with supply chain bottlenecks than with a sudden weakness in demand, prospects for a continuation of the current upturn in capital expenditure are positive. Support is provided by easy access to finance, improved capacity utilisation and profit ratios and still solid confidence levels.

Exports are also expected to continue to contribute to economic growth. The outlook for global economic growth bodes well for international trade. However, the increasing threat of protectionism and euro strength could dampen potential export growth.

GROWTH OUTLOOK FOR 2018-2019

Indicators and economic fundamentals are consistent with the EU economy maintaining above-average growth in 2018. Eurostat's preliminary flash estimate for the first quarter of 2018 signals a GDP growth of 0.4% quarter-on-quarter in the EU28. GDP growth is pencilled in at 2.2% for the whole year 2018.

In 2019 EU the normalisation of monetary policy is anticipated to have a mildly dampening effect on investment growth after two years of rather strong expansion of capital expenditure. Growth in private consumption and exports are expected to moderate following relatively strong growth in recent years.

Economic indicators				
Year-on-year change in %				
EUROFER Forecast	2016	2017	2018 (f)	2019 (f)
GDP	1.9	2.5	2.2	1.9
Private consumption	2.3	2.0	1.7	1.6
Government consumption	1.7	1.1	1.3	1.1
Investment	2.1	3.8	3.5	3.0
Investment in mach. equip.	3.2	3.6	3.9	2.8
Investment in construction	1.2	3.9	3.0	2.7
Exports	3.3	5.4	5.5	4.3
Imports	4.4	5.1	5.4	4.4
Unemployment rate	9.2	8.3	7.8	7.3
Inflation	0.3	1.7	1.6	1.8
Industrial production	2.1	3.2	3.4	2.4

(f) = forecast

EUROFER's second quarter 2018 outlook forecasts EU GDP growth at 1.9% in 2019.

THE EU STEEL MARKET: FINAL USE

OUTLOOK FOR STEEL-USING SECTORS

Final data for 2017 confirm that last year has seen the strongest expansion in activity in the steel-using sectors since 2011. Preliminary data and indications for activity growth in the first quarter of 2018 are quite positive. However, as anticipated, growth appears to be less vigorous than in the same period of 2017.

CONSTRUCTION INDUSTRY

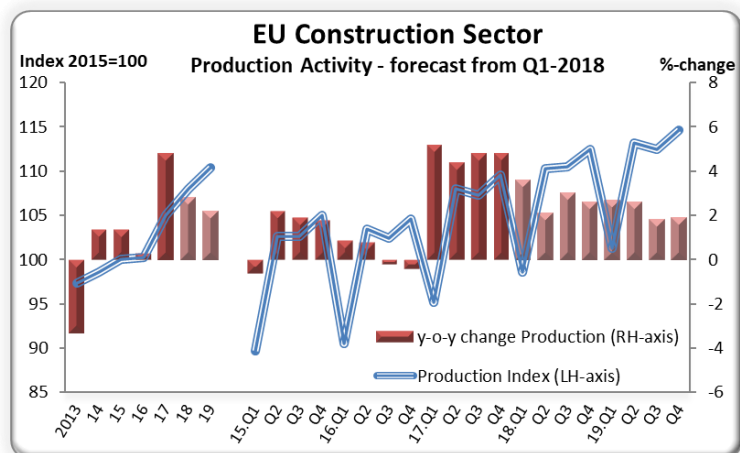
EU construction output growth in 2017 surpassed previous estimates and grew by 4.8% in 2017. Construction activity in the first quarter of 2018 is estimated to have risen by 3.6%.

Construction industry output

EU construction activity remained robust in the fourth quarter of 2017. Output grew by 4.8% year-on-year, the same growth as registered over the third quarter. This implies that in 2017 total activity in the EU construction sector rose by 4.8%, the strongest growth in about a decade. Since 2016, the sector has been witnessing a cyclical rebound from the deep and long downturn dating back to the global financial crisis. Last year the rebound gained further momentum.

Construction industry growth in 2017 and the first quarter of 2018

While initially the construction upturn was confined to Germany, Sweden, the Netherlands and the UK, over the past two years it spread to the other EU countries. This is particularly true for France and Poland.



The major growth driver in Western Europe remains the surge in demand for new housing and for residential renovation and modernisation. Demand for housing has also been fuelled by the migrant inflows into several EU member states over the past few years.

In 2017 non-residential construction activity growth gained significant momentum as well, owing to rising demand from both the private and the public sectors. On a par with the EU and global economy gaining strength, particularly investment in logistic infrastructure – logistic hubs, intelligent warehouses, etc. - has been quite robust. Other private sector investment includes shopping malls, leisure centres and smart offices, whereas public investment benefited from increased government spending on buildings for public services.

Civil engineering projects and related activities were the major driver in the Central European region. Poland, the largest construction market in the region, returned to growth in the second half of 2017 on a par with the increased likelihood of the release of EU funds.

EU construction activity is estimated to have grown by 3.6% in the first quarter of 2018. Only in the UK, Germany and Hungary activity weakened compared with the same period of 2017.

Construction industry forecast 2018-2019

Construction demand looks set to rise gradually further in 2018 and 2019, driven by solid private and public demand for building and civil engineering projects. Residential demand will benefit from robust levels of consumer confidence, rising household income and the still low cost of finance. Migrant inflows have led to tight supply of housing in several EU member states. Private demand for commercial and industrial construction will be boosted by renewed investment following a relatively long period of underactivity. Improving budgetary conditions across the EU countries will allow government to invest more in non-residential and civil engineering projects.

Some countries that had witnessed an early revival of construction sector activity face a slowdown in output growth, not only due to the boost from pent-up demand gradually drying up, but also because of supply-side constraints in the construction sector such as lack of capacity and labour shortages.

Total EU output is forecast to rise by 2.8% in 2018 and by 2.2% in 2019. In the UK, activity growth is expected to be rather sluggish due to firms withholding investment decisions as they await the outcome of Brexit negotiations.

AUTOMOTIVE INDUSTRY

In line with the January forecast, EU automotive sector output expanded by 3.7% in 2017. First indications for activity in the first quarter of 2018 show – as expected – a mild moderation of production growth in the EU.

EU passenger car and commercial vehicle demand

EU passenger car registrations grew by 0.7% in the first quarter of 2018. In March, registrations fell by 5.3% year-on-year. Sales were particularly weak in the UK where registrations dropped by 15.7% year-on-year. In Germany and some smaller Western and Eastern European markets sales slipped compared with the same period of 2017. This slowing momentum does not come as a surprise as it was expected that the EU market would start showing signs of saturation after several years of rather rapid growth of passenger car sales.

New commercial vehicle registrations in the European Union grew by 2.6% over the first quarter of 2018. In March demand fell across all vehicle segments and in all major markets except France; strongest drops were registered in Germany and the UK.

EU car exports increased by 2.3% year-on-year in value terms over the whole year 2017; this represented a trade volume of 5.6 million units. The largest market was by far the US, followed by China. EU imports of passenger cars rose by 5.4% in 2017. Total EU commercial vehicle and bus exports fell volume-wise by almost 40% in 2017, mainly as a result of weaker sales in the USA and Hong Kong. Meanwhile, EU imports rose by 7.7% in 2017.

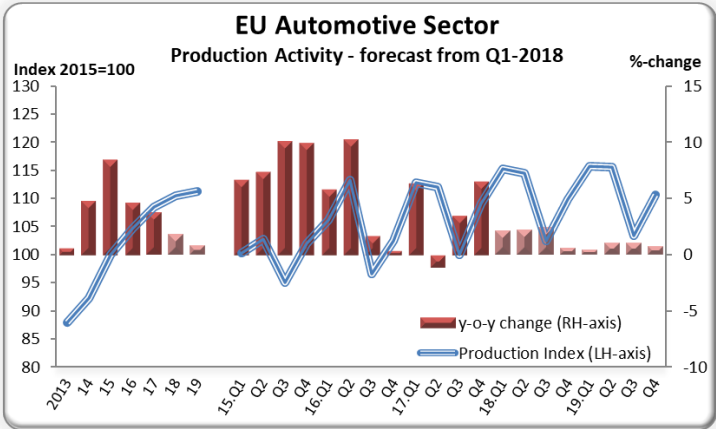
Automotive sector growth in 2017 and the first quarter of 2018

Activity in the automotive sector grew by 6.5% in the final quarter of 2017. This resulted in total growth of 3.7% over 2017.

Production growth is estimated to have eased to 2.1% year-on-year in the first quarter of 2018, on slowing demand dynamics in the domestic market. Output in the UK registered a marked decline.

Automotive industry forecast 2018-2019

After a strong expansion of EU vehicle demand over the period 2014-2017, the domestic passenger car and commercial vehicle market is foreseen to remain at an overall robust level but inevitably register slower growth rates in registrations than in the recent past due to saturation effects. Nevertheless, economic fundamentals remain supportive to a mild growth of vehicle demand going forward.



EU’s trade balance in vehicles and parts and components is currently facing elevated risks due to protectionist measures taken by the US government against steel and aluminium and the related retaliatory measures which could include also US tariffs on EU manufactured cars. Lower demand and higher imports from other key overseas markets such as Turkey will also exert a negative impact on EU’s external trade performance. The strength of the euro is a risk for the competitiveness of Eurozone vehicle exporters and their EU-based supply chain.

The Brexit negotiations pose also a risk for EU OEMs in general but in particular for Germany, the main supplier of passenger cars to the UK market.

All in all, the outlook for EU automotive output is moderately positive. Total output – including parts and components – is expected to rise by 1.8% in 2018 and by 0.8% in 2019. Best prospects are for the Central European region due to intra-European shifts in production in the context of major OEMs’ drive for better capacity management. UK production is expected to suffer from weakening demand, ageing model lines and Brexit related uncertainty. Increasing US protectionism also poses a major risk to UK exports.

MECHANICAL ENGINEERING

In 2017 the mechanical engineering sector posted 6% production growth as it was boosted by the global capex cycle getting into full swing

Mechanical engineering output

Activity in the EU mechanical engineering industry grew by 6.6% year-on-year in the fourth quarter of 2017. This resulted in total production activity rising by 6% in 2017, the sector's best performance since 2011. EU mechanical engineering firms benefited from a boom in capital expenditure, driven by renewed spending on machinery and equipment in both EU domestic and third country demand. The upswing in production activity was broadly supported across all reporting EU member states.

Mechanical engineering growth in 2017 and the first quarter of 2018

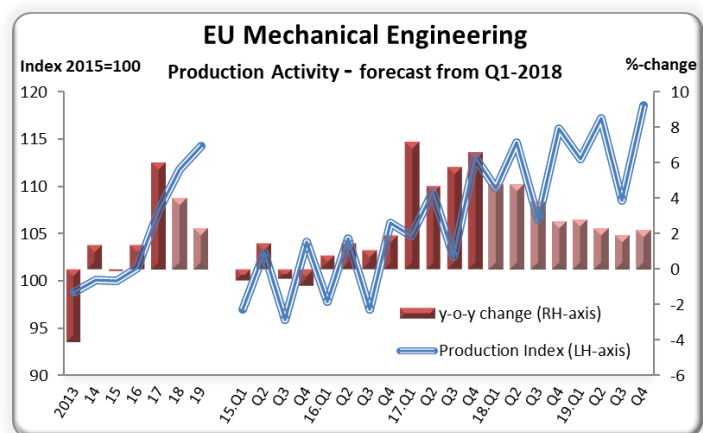
After several years of underspending on machinery and equipment in the aftermath of the global financial crisis and the Eurozone crisis, business conditions in the EU improved markedly in 2017. Rising capacity utilisation and profits in the industrial and construction sectors boosted business confidence. Combined with low cost and easy access to finance, pent-up demand for machinery and equipment was unleashed and resulted in a sharp rise in capital expenditure over the year. In the key export markets for EU mechanical engineering products capex investment gained significant momentum and boosted order intakes.

Demand dynamics were particularly strong for machine tools, handling and lifting equipment, processing machinery for electronics, equipment related to mining, construction and agriculture, robotics and automation equipment.

Business conditions remained very robust in the first quarter of 2018. Owing to very strong order intakes in 2017, high production backlogs will for the time being guarantee a healthy workload in most subsectors of the mechanical engineering industry in the EU. Production activity is estimated to have grown by 4.8% year-on-year.

Mechanical engineering forecast 2018-2019

The outlook for the mechanical engineering sector in the EU remains positive for 2018 and 2019. EU investment in machinery and equipment is forecast to rise by almost 4% in 2018 before easing moderately in 2019. Prospects for the global capex cycle are also positive owing to increased business and public spending. This will provide a boost to international trade in engineering products.



However, while economic fundamentals suggest that global demand for machinery and equipment should expand at a solid rate over the forecast period 2018-2019, the current strength of the euro could have a negative impact on orders from abroad going forward. Survey results for the first months of 2018 appear to have shown already a mild slowing in export bookings. An even more serious risk to the export potential of this sector is the current protectionist tendency in US government policies. Tariffs applied within the framework of Section 232 on steel and aluminium products shipped to the USA could trigger a vicious circle of affected US trade partners taking retaliatory measures which in turn could trigger US counteractions. As such, this threatens to distort international trade relations and hinder access to foreign markets.

It is therefore expected that production activity growth will gradually moderate to 4% in 2018 and 2.3% in 2019.

STEEL TUBE INDUSTRY

Output in the steel tube industry grew by 7.2% in 2017, reflecting a temporary demand boost from pipeline projects and rather weak activity levels in 2016.

Steel tube industry output

EU steel tube production activity grew by 5.5% year-on-year in the fourth quarter of 2017. On balance, steel tube production in the EU rose by 7.2% in the whole year 2017, the sector's best performance since 2011. Double-digit production growth was recorded in Germany and Spain.

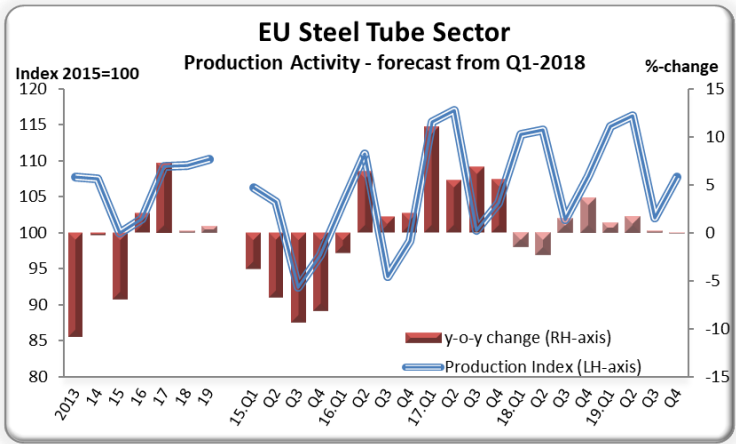
Steel tube industry growth in 2017 and the first quarter of 2018

The strength of the steel tube sector in 2017 can be largely explained by the demand boost from the international pipeline market. As a result of strong bookings at the end of 2016 large diameter welded pipe producers enjoyed an exceptionally strong workload during 2017. But also the general improvement in business conditions in the EU stimulated demand for smaller diameter steel tubes used in the downstream processing industries and for tubular products used in the construction sector.

Business conditions in the OCTG market improved on a par with rising global rig count numbers.

All in all, steel tube production activity grew by 7.2% in 2017.

In line with expectations, the boost from large welded tube demand dried up at the end of 2017. Particularly production in Germany witnessed a major downward correction compared with the elevated output levels registered in 2017. Total EU output fell by 1.5% in the first quarter of 2018. Demand for the other tube products held up well, supported by healthy business conditions in the key client sectors of smaller welded and seamless steel tubes.



Steel tube industry forecast 2018-2019

In 2018, steel tube production activity in the EU is projected to stagnate at the 2017 level; a very modest growth of 0.7% is currently pencilled in for 2019. The market segment for large welded tubes will remain subdued for the time being. Although there are theoretically ample international pipeline projects to be developed into the actual building stage, these projects rely on very strong partnerships because they are very capital intensive and inherently long-term. Building these lines is not straightforward and the obstacles along the road leading to project start-up are numerous. Many of the pipelines planned around the world still confront commercial, financial, and political issues which often lie outside the remit purview of project's promoters.

The projected fall in output of large welded tubes will be compensated for by a continued rise in production activity in the other tube segments.

ELECTRICAL DOMESTIC APPLIANCES INDUSTRY

Production activity in the electrical domestic appliances industry's rise by 3.6% in the fourth quarter of 2017 and by 3.2% over the whole year.

Electrical domestic appliances output

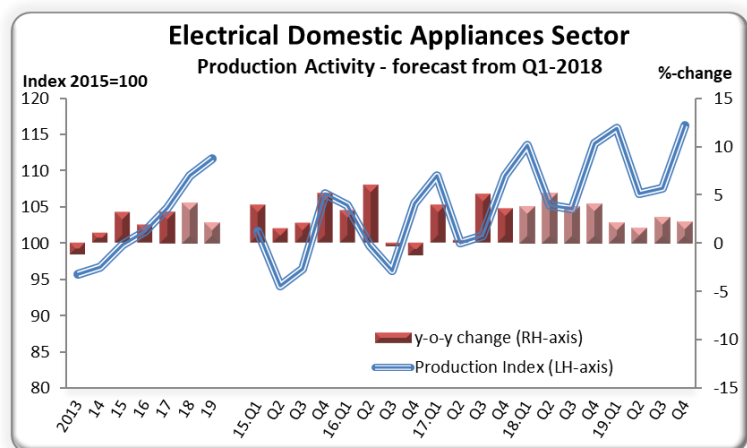
Output in the EU's electrical domestic appliances sector continued to grow at a robust pace in the final quarter of 2017. Production rose by 3.6% year-on-year, albeit with diverging trends at the country level. Production activity fell in France, the United Kingdom as well as in several smaller EU countries; output in Sweden grew quite strongly.

Electrical domestic appliances industry growth in 2017 and the first quarter of 2018

Total production in the electrical domestic appliances sector in the EU grew by 3.2% in 2017.

The EU market benefited in 2017 from the continued strength of consumer spending. Improving labour market conditions and indications that this is gradually translating into stronger wage growth have been strongly supportive to high levels of high levels of consumer confidence. Another important factor has been rising demand for new and existing property as well as the related demand for housing renovation and modernisation. Low cost and easy access to finance have been supportive to costumers deciding on big ticket purchases.

With fairly similar market conditions in the first months of this year, production activity in the first quarter of 2018 is estimated to have grown by 3.8% year-on-year.



Electrical domestic appliances industry forecast 2018-2019

Prospects for the European electrical domestic appliances market are favourable. Demand for large and small electric household appliances looks set to remain strong over the forecast period.

Growth drivers are the overall positive outlook for new residential building activity, housing renovation and maintenance work as well as the strength of property markets across the EU. Smartness, efficiency and connectivity are becoming more dominant demand drivers in the household equipment market in the EU. Particularly efficiency-related features such as lower energy consumption, less noise generation and lower operating time are factors on which consumers may decide to replace existing equipment. With consumer confidence at robust levels and healthy prospects for the labour market and disposable incomes, private buyers have become definitely more at ease with upgrade purchases of household equipment designed to make a more rational use of energy resources. Given the strong commitment of the European OEMs to research and innovation, they are well positioned in those market segments in which quality and efficiency are strong selling points.

With market players from Asia and Eastern Europe increasingly gaining popularity, competition looks set to remain fierce during the forecast period.

Production activity in the EU is forecast to rise by 4.2% in 2018 and by 2.1% in 2019.

TOTAL STEEL-USING SECTORS OUTPUT

Production activity in EU steel-using sectors ended the year 2017 on a strong footing, with output rising by 5.8% year-on-year in the fourth quarter. Total output rose by 5% over the whole year 2017.

Year-on-year %-change EU Steel Weighted Industrial Production (SWIP) index												
	% share in total Consumption	Year 2017	Q118	Q218	Q318	Q418	Year 2018	Q119	Q219	Q319	Q419	Year 2019
Construction	35	4.8	3.6	2.1	3.0	2.6	2.8	2.7	2.6	1.8	1.9	2.2
Mechanical engineering	14	6.0	4.8	4.8	3.8	2.7	4.0	2.8	2.3	1.9	2.2	2.3
Automotive	18	3.7	2.1	2.2	2.4	0.6	1.8	0.4	1.0	1.0	0.7	0.8
Domestic appliances	3	3.2	3.8	5.2	3.8	4.1	4.2	2.1	1.6	2.7	2.2	2.1
Other Transport	2	3.7	1.0	3.8	3.4	3.0	2.7	3.3	2.5	1.5	2.5	2.5
Tubes	13	7.2	-1.5	-2.3	1.5	3.6	0.2	1.0	1.7	0.2	-0.1	0.7
Metal goods	14	5.1	5.6	5.4	3.7	2.9	4.4	1.9	1.8	2.1	2.4	2.1
Miscellaneous	2	2.6	2.1	4.0	3.5	2.1	2.9	2.8	1.4	0.6	1.4	1.6
TOTAL	100	5.0	3.1	2.7	2.9	2.3	2.8	2.0	2.0	1.8	1.7	1.9

Total steel-using sector growth in 2017 and the first quarter of 2018

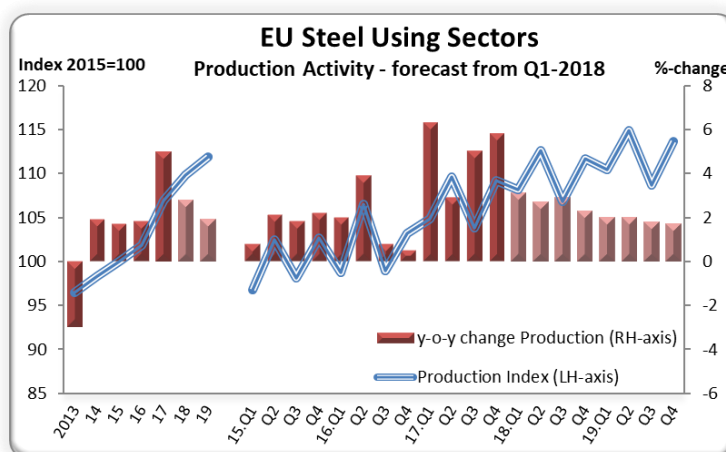
All reporting EU countries registered positive activity growth in 2017. At the sector level, the performance by individual industry strengthened significantly in 2017 compared with the previous year. Most sectors had their best performance since 2011. The main exception was the automotive

industry where as expected output growth slowed down, reflecting a mild weakening of demand in the EU and in key export markets.

Total production activity in the steel-using sectors is estimated to have grown by 2.7% in the first quarter of 2018. This is basically the result of the negative trend in steel tube output in the EU.

Total steel-using sector forecast 2018-2019

Prospects for 2018 and 2019 are quite healthy. It was already anticipated that due the temporary impulse from the steel tube sector falling away, total activity growth in the steel-using sectors would ease in 2018 and 2019. Slowing production growth in the automotive sector will have a mitigating impact on the growth rate of activity in the steel-using sectors.



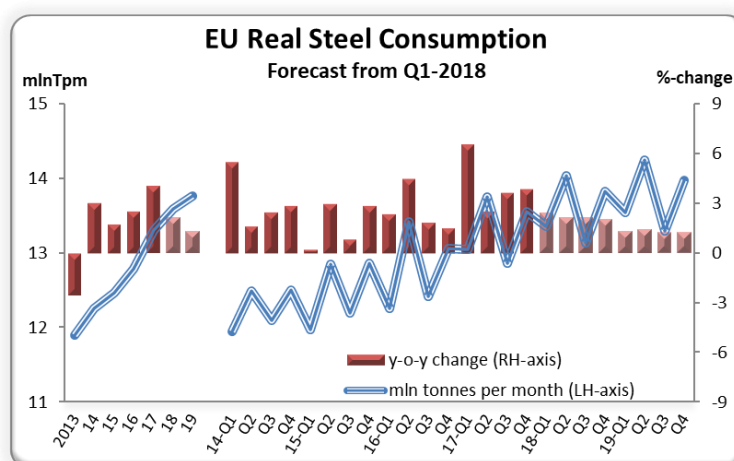
Output in EU's steel-using sectors is forecast to grow by 2.8% in 2018 and by 1.9% in 2019.

REAL STEEL CONSUMPTION

Real steel consumption strengthened further in the fourth quarter of 2017, in sync with the robust rise in output of the steel-using sectors in the EU.

Real steel consumption growth in 2017 and in the first quarter of 2018

In line with earlier expectations, real steel consumption in the EU rose by 3.8% year-on-year in the final quarter of 2017. As a result, total real steel consumption grew by 4% over the whole year 2017. While this vigorous growth of final steel use in the EU also reflects the general improvement in business conditions of the main steel users in Europe, the temporary exceptionally strong growth of steel tube production activity had a major impact on final steel use as well.



Preliminary indications for the first quarter of 2018 signal a still positive but more moderate growth rate of real steel consumption at 2.4% year-on-year, on a par with the slower and more sustainable output growth in the steel-using sectors.

Real steel consumption forecast 2018-2019

Real steel consumption growth is forecast to moderate to a more sustainable rate in 2018 and 2019. This primarily reflects activity growth in the tube sector moving sideways and a further slowing of output growth in the automotive sector. EU real steel consumption is forecast to grow by 2.1% in 2018 and by 1.3% in 2019 and will result in final steel use gradually climbing higher. Steel intensity will continue to exert a slightly negative influence on real consumption growth.

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

Period	Year 2017	Q1-18	Q2-18	Q3-18	Q4-18	Year 2018	Q1-19	Q2-19	Q3-19	Q4-19	Year 2019
% change	4.0	2.4	2.1	2.1	2.0	2.1	1.3	1.4	1.2	1.2	1.3

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.

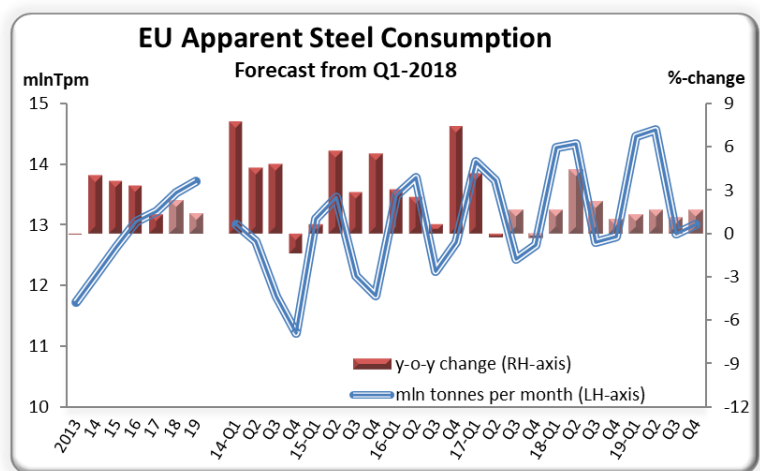
APPARENT STEEL CONSUMPTION

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

Apparent steel consumption in 2017 and the first quarter of 2018

EU28 apparent steel consumption fell by 0.3% year-on-year in the fourth quarter of 2017. This resulted in total apparent steel consumption over the whole year 2017 rising by 1.3%.

Preliminary estimates for the first quarter of 2018 signal that apparent consumption may have risen by 1.6% year-on-year.



EU domestic and foreign supply

Similar to the trend in supply flows registered in the third quarter of 2017, domestic deliveries to the EU market also rose in the fourth quarter – by 3.4% year-on-year – whereas imports from third countries were 9% lower than in the same period of 2016. Total steel imports fell by 1.8% in 2017, reflecting a 7.9% year-on-year rise over the first half of the year and an 11% year-on-year drop over the second half. The reduction in imports was caused by the narrowing gap between EU domestic prices and import prices as well as reduced imports from countries on which anti-dumping and anti-subsidy investigations by the European Commission had led to actual measures. That impact was particularly felt in the third quarter whereas imports in the fourth quarter were up on the previous quarter as other third country suppliers increased their exports to the EU.

While the EU market has seen an increase in inventories in 2016, the rather rapid expansion of final use over the year 2017 and even supply bottlenecks led to players in the distribution chain to drawing down inventories. This led to an overall modest decline in stocks. As a consequence, EU28 apparent steel demand rose by 1.3% in 2017.

Apparent steel consumption forecast 2018-2019

Prospects for a continued recovery in EU steel demand are positive. The expected strength of most steel-using sectors bodes well for the demand side of the EU steel market. However, the supply side situation could be negatively affected by import distortions.

This is particularly true within the current context of the increased risk of a sudden surge of imports in the wake of the US' decision to impose blanket tariffs on foreign steel. This may cause a significant deviation of otherwise US-bound steel trade flows towards the EU market.

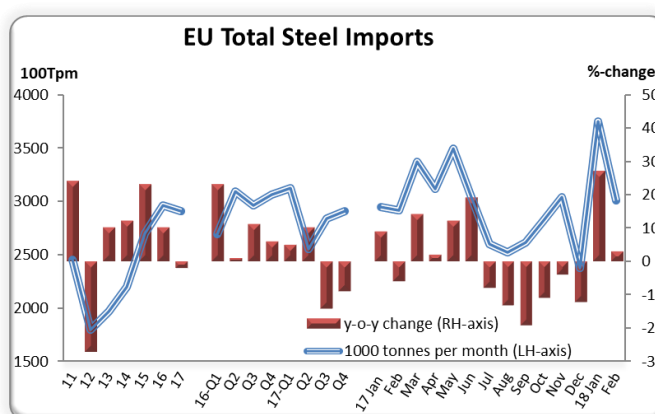
EU apparent steel consumption - in million tonnes per year											
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 (f)	2019 (f)
Million tonnes	121	148	158	141	141	146	152	157	159	162	165

Forecast for EU apparent steel consumption - % change year-on-year											
Period	Year 2017	Q1-18	Q2-18	Q3-18	Q4-18	Year 2018	Q1-19	Q2-19	Q3-19	Q4-19	Year 2019
% change	1.3	1.6	4.4	2.2	1.0	2.3	1.3	1.6	1.1	1.6	1.4

IMPORTS

Total imports in 2017 fell slightly – by 1.8% – compared with the volume in 2016. However, following a downward trend in imports from June to August, imports resumed a rising tendency from September to December 2017.

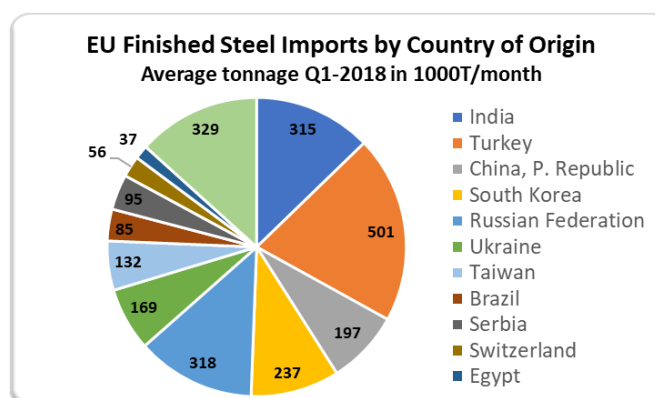
Customs data for January-February 2018 show that total imports rose by 15% year-on-year. Based on SURV2 data for March, finished product imports over the first quarter of 2018 grew by 8% year-on-year. This figure represents a 2% year-on-year drop in flat product imports and a massive 49% increase in long product imports.



Imports by country of origin

In 2017, the main countries of origin for steel imports into the EU market were India and Turkey, followed by China, South Korea and Russia. These five countries represented 63% of total finished steel import volumes into the EU.

Imports from India rose by a massive 96% in 2017 whereas imports from Turkey grew by 64%. The rise in their exports to the EU filled the gap left by lower exports by China, Russia, Ukraine and Brazil, countries fined by the European Commission with anti-dumping

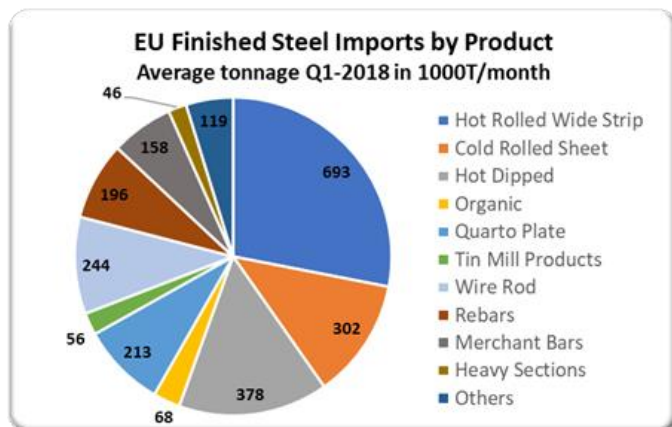


duties. However, they were certainly not the only countries increasing their presence on the EU steel market. Imports from Vietnam rose by an immense 695% whereas imports from Egypt rose by 593% and imports from the US by 88% as suppliers in these countries could benefit from the partial withdrawal from the EU market by the countries that had measures imposed on them.

Customs data for imports in the first quarter of 2018 show that the rising trend in imports over the September-December 2017 period continued into the first quarter of 2018. Finished imports from Russia rose by 138% year-on-year, from Iran by 84%, from Turkey by 75%, from the US by 32% and from Taiwan by 25% year-on-year.

Imports by product category

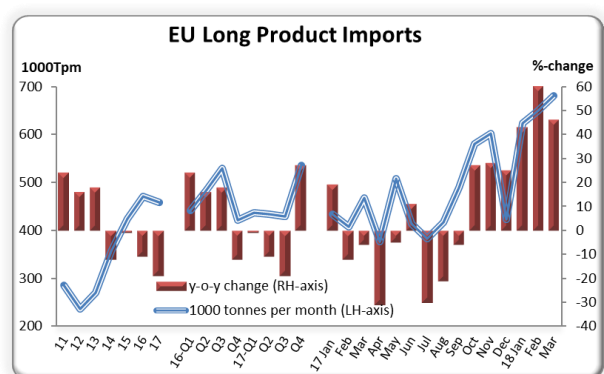
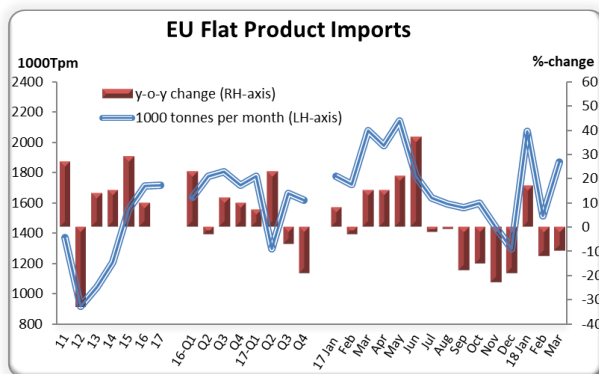
Final customs data for 2017 confirm that on balance flat product imports stabilised at the year earlier level, whereas long product imports fell by 2%. At the individual product group level, imports of hot-rolled coil, quarto plate and tin mill products fell by 16%, 10% and 18% in 2017, respectively. Imports of all other major flat products grew rather sharply: cold-rolled sheet imports grew by 21% and coated sheet imports increased by 28% over the whole year 2017. Generally speaking, long product imports showed a downward tendency; the main exception was wire rod which registered a 4% rise in imports in 2017. With a fall of 32%, sections imports showed the sharpest decline of all long products in 2017.



Finished product imports rose by 8% year-on-year in the first quarter of 2018, due to a 2% drop in flat imports and a 48% increase in long product imports.

The 8% year-on-year rise in finished product imports in the first quarter reflects a 2% drop in flat products and 48% increase in long products. Particularly rebar imports showed a very sharp year-on-year increase of 120%.

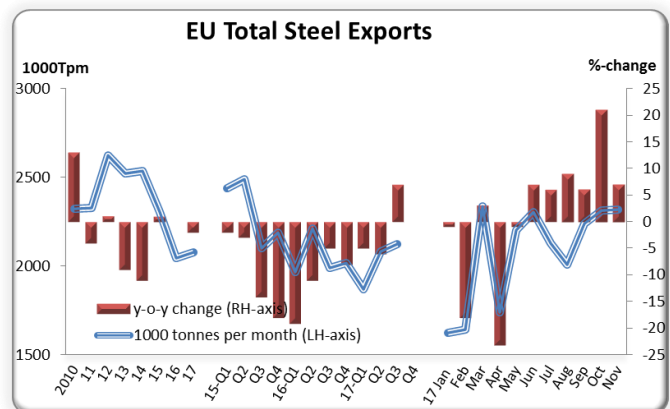
Long product imports from Turkey grew by 117% year-on-year and long product imports from Russia by 59% year-on-year.



EXPORTS

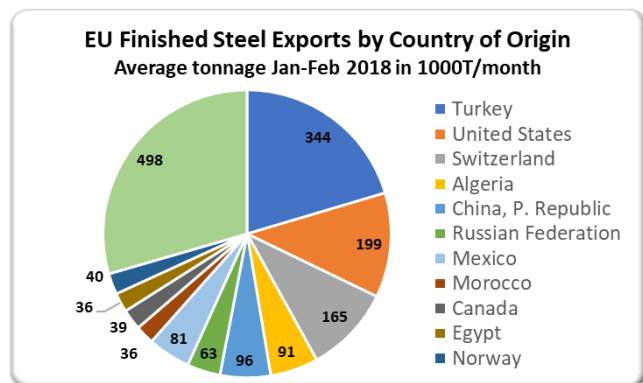
Total EU exports of steel products to third countries rose by 1% year-on-year over the whole year 2017. Exports of semis – which represent only 8% of total EU exports – grew by 100% compared with 2016. Total finished product exports decreased by 3% year-on-year. While flat product exports rose by 5%, long product exports fell by 14%.

Over the first two months of 2017 total exports grew by 14%, owing to a 30% increase in semis' exports and a 13% rise in finished product exports.



Exports by country

Turkey, the United States, Switzerland, Algeria and Canada were the five main export destinations for EU flat and long product exports in 2017, together accounting for 53% of total finished product exports. Algeria partially re-opened its steel market for rebar imports. This allowed EU producers to deliver some volumes in the fourth quarter of 2017. However, total EU rebar exports to Algeria fell by 66% over the whole year 2017.

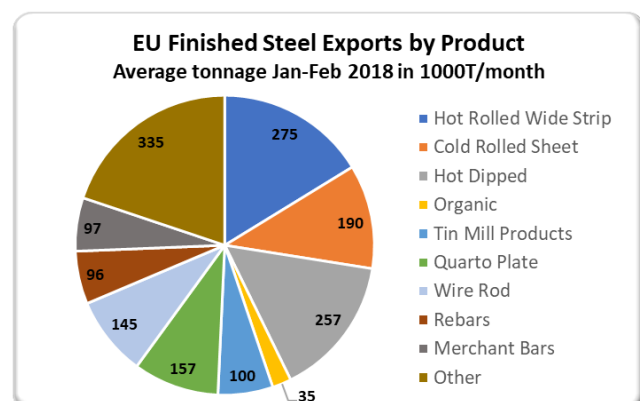


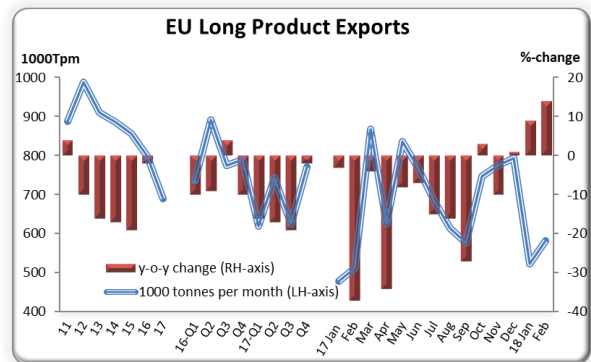
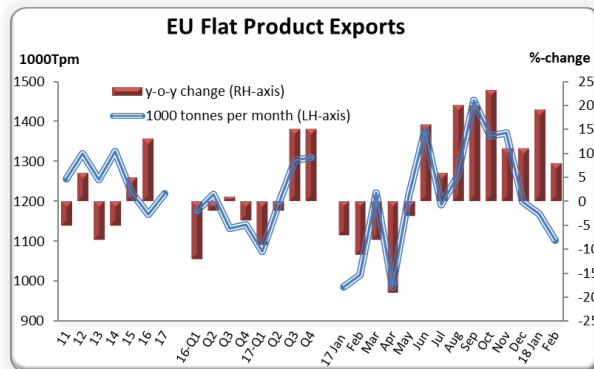
The main export destinations for EU flat exports were Turkey, the United States and Switzerland, and North America. The main destinations for long product exports were Algeria, the United States, Switzerland and Turkey.

The key destinations of exports over the first two months of 2018 did not change.

Exports by product category

Finished steel product exports accounted for 92% of total EU exports in 2017; semis accounted for the remaining 8% of exports. Flat product exports made up for 59% of total exports and long product exports for the remaining 33%. These percentages did not change substantially over the first two months of 2018.





Trade balance

The slight drop in imports and marginal increase in exports kept the EU's net trade deficit in 2017 very close to that of the previous year. The trade deficit amounted to 9.9 million tonnes in 2017, compared with 10.9 million tonnes in 2016.

The trade deficit in semis fell from 8.3 million tonnes in 2016 to 6.7 million tonnes in 2017. Meanwhile, the net trade deficit in finished products grew from 2.6 million in 2016 to 3.2 million tonnes in 2017.

The deficit for flat products increased by 10% to 6.6 million tonnes in 2017, coming from 6 million tonnes in 2016. Only long products registered a trade of 2.8 million tonnes in 2017, significantly lower than the 2016 surplus of 3.9 million tonnes.

Country-wise the strongest trade deficits were recorded for steel trade with Russia, Ukraine, India South Korea and China.

The trade deficit deepened sharply over the first two months of 2018 and jumped to an annualised level of 18.2 million tonnes.

For the first time in a long period there was also a deficit in long product trade, whereas the trade deficit in semis and flat products deteriorated significantly.

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.