EUROFER
THE EUROPEAN STEEL ASSOCIATION

Economic report

Economic and steel market outlook 2020-2021

05 August 2020

Third quarter report;data up to, and including, first quarter 2020

Introduction

The COVID-19 pandemic has slashed steel consumption forecasts as well as the overall economic outlook across the EU and the world. Shutdown measures implemented by governments starting from March 2020 have hugely impacted manufacturing activity and steel-using industrial sectors, although these measures have been almost completely removed – or broadly eased - at the time of writing. This has affected the automotive sector in particular, but it and other industries had already been experiencing subdued developments in the second half of 2019 due to the downslide of the manufacturing sector in the EU, escalating trade wars between the US and several of its main trading partners and persistent uncertainty regarding Brexit. All of these factors combined led to continued further deterioration in business sentiment and curbed investment growth throughout 2019, even before the onset of the pandemic.

Actual data for apparent consumption reported here refers to the first quarter of 2020, which only partly reflect the effects of the pandemic on the industry and the economy as severe lockdown measures were only implemented across most EU members states from the second half of March 2020.

However, economic prospects and steel consumption outlook reflect the dramatic deterioration due to the expected consequences of the pandemic. The outlook for this year and for 2021 is particularly affected by the Covid-19 related disruption and is likely to be revised again later in the year in EUROFER's later quarterly outlooks.

At the time of writing, lockdown measures had been almost completely removed or considerably eased in most EU member states, which had allowed industrial activity to restart. The implementation of the containment measures that had been put in place in EU member states led to an almost complete shutdown of industrial activity in the second half of March and in April. The unprecedented nature of this crisis makes uncertainty and volatility surrounding possible developments in the coming months means still high.

In any case, the somewhat stabilised situation in relation to the pandemic across most member states has made it possible for EUROFER to publish – unlike in the previous Quarterly Economic and Market Outlook Report - figures quantifying forecasts for 2020 and 2021.

Apparent steel consumption in the EU fell by 12% year-on-year in the first quarter of 2020, after a drop of 10.8% in the fourth quarter of 2019. This resulted in yearly fall of 5.3% for the entire year 2019. This was the worst annual performance in EU steel demand since 2012. The negative trend in steel demand seen in the first quarter of 2020 is the result of the continued slump in EU's manufacturing sector due to weakened exports and investment that became more pronounced during the second half of last year, coupled with escalating trade tensions between the US and its major trading partners. In addition, the onset of the pandemic, albeit not fully reflected in the first quarter data, further contributed to lower steel demand. Equally, data for

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the first quarter of 2020 continued to show growing import distortions as well as higher volatility as a result of the increase of safeguard measures' quota.

The onset of the COVID-19 pandemic is expected to dramatically impact the already challenging steel market situation, with unprecedented consequences for the steel industry. Capacity idling, reductions in the workforce and cuts in production have already taken place at an unprecedented scale and it is unknown, at the time of writing, as to when – or whether – normal economic activity will be fully restored. Confinement and lockdown schemes have been removed by most EU governments, and production has restarted again in almost all industrial sectors,.

EU steel market overview

EU28 apparent steel consumption fell by 12% year-on-year in the first quarter of 2020 (that is for the fifth consecutive quarter, after a drop of 10.8% in the fourth quarter of 2019) and amounted to 37.6 million tonnes. The figure for the first quarter 2020 reflects the further deterioration in steel demand due to the negative factors that had already materialised in the preceding quarters and had led to a sharp reduction in steel consumption.

In addition – albeit only partly reflected in actual consumption figures – the onset of the Covid-19 pandemic has also impacted steel consumption starting from the second half of March this year. Worsening business conditions in the steel-using sectors further to a steeper-than-expected reduction in stocks over the second quarter of 2019, mirroring gloomier confidence and business expectation, severely impacted steel demand during 2019. The challenges that the EU sector has to face have become more severe, with even more negative repercussions for market conditions.

As a result, the continued downturn in steel demand led to the fifth consecutive fall year-on-year in domestic deliveries in the EU in the first quarter of 2020 (i.e. -8%, same rate as in the fourth quarter of 2019). After a considerable drop of 24% in the fourth quarter of 2019, the downward trend in imports from third countries continued in the first quarter of 2020, with a year-on-year fall of 20%. This equated with 8.4 million tonnes in absolute volumes, accounting for 21.2% of EU steel demand (in historical terms, down from 23.5% in the first quarter of 2018).

As in preceding quarters, developments in total imports continued to conceal some distortions at the individual product level. These continued to be linked to the design of the current safeguard mechanism, and which has resulted in a rush to maximise quarterly quota allowances by several key exporters to the EU, such as Turkey and China. Despite the current uncertainty on the magnitude and the length of the COVID-19 outbreak, whose length and intensity are unprecedented, it is expected normal market conditions will at some point be restored and steel demand will pick up again. The main challenge is that persistent import pressure – resulting from

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continued stockpiling and capacity expansion by major non-EU exporting countries – will, in essence, penalise EU steel producers.

Although the wide uncertainty and the unprecedented nature of the crisis has made it more complicated than ever to produce reliable forecasts. At the time of writing, market conditions are not expected to improve before the fourth quarter of 2020 or early 2021. Much will depend on the length of the industrial lockdown in steel-using sectors that has almost frozen new steel orders (on the supply side).

Lockdown measures have been removed or considerably eased almost everywhere in the EU, allowing some restart in automotive and other sectors. A key role will also be played by governments' ability to alleviate the huge economic and social costs of the pandemic so as to support demand. However, if and when the economy returns to normal conditions, all the downside risks that had considerably weakened steel-using sectors and steel demand during 2019 will still be there, namely import distortions and continued global overcapacity and weakness in the global manufacturing cycle. Restarting normal industrial activity after the end of the pandemic will not lead to a rapid return to usual output volumes. Consumer demand, due to the huge social disruption caused by the pandemic, is set to remain depressed throughout 2020; it will take time before the end of industrial lockdown leads to substantial output increases.

EU steel-using sectors

The Covid-19 outbreak has further hit EU industrial sectors at a time when these had already been experiencing a severe downturn and were coping with serious challenges Over the course of 2019, business conditions in the manufacturing industry have continued to deteriorate. This downward trend has gained speed in the second half of 2019, particularly in the automotive industry, while the construction sector has continued to outperform other major steel-using sectors. This has resulted in a pronounced slowdown in output growth in steel-using sectors. As a result of this trend, total output in steel-using sectors fell by -7.2% in the first quarter of 2020 after falling by -1.3% in the fourth quarter of 2019. The annual 2019 figure (formerly, a decrease of -0.2% compared to 2018) has been revised compared to EUROFER's previous Market Outlook, so that steel-using sectors' output increased by a meagre 0.3% in 2019 (after +2.9% in 2018).

The dramatic consequences of the COVID-19-related shutdown in industrial activity do not only affect Europe. They have reached a global scale, in terms of huge disruption supply chains and supplies of input and raw materials. This will probably have unprecedented repercussions on output in the second and third quarters of 2020. Against this background, a substantial rebound is not in sight before the first quarter of 2021. Even after the end of the pandemic, external risks will continue to cast a shadow over steel-using industrial sectors, even in 2021. This will likely

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seriously hamper investment. However, the extent remains difficult to predict. Much will depend on other, non-COVID-19 related factors that were already in place before the outbreak. Whether global trade fundamentals will improve – which is fundamental given the large exposure of EU's export-oriented industrial economies to changes in global trade – is unclear at this stage. Other sources of uncertainty exist, such as a no-deal Brexit – as the final agreement with the EU must be reached before the end of 2020 – and a new escalation in protectionist trade measures would also contribute to a sustained negative outlook.

EU economic context

The outlook for the global economy has been hugely impacted by the COVID-19 pandemic. The outbreak has resulted in the shutdown of major economic activities across the EU, particularly the manufacturing and automotive sectors from the second half of March until late April/early May, including steel mills.

While the 2009 recession was triggered by the collapse of the housing market in the EU and impacted the construction sector at first, the current downturn is both a supply and demand side shock with unprecedented consequences. On the supply chain side, the pandemic caused major disruption, i.e. factory shut downs and logistics bottlenecks causing parts/components and shortages. Substantial falls in productivity were recorded as a result of social distancing and a shortage of workers.

All steel using sectors have been widely affected, especially those with long, global supply chains. On the demand side, severe containment measures and falling confidence have led to sharp falls in consumer spending on services and consumer durables. Rising unemployment and much more cautious spending have contributed to exacerbating the situation. Lockdown measures have gradually been eased across most member states from early May, leading to restart in production and almost complete freedom of movement for citizens. In any case, the complete lockdown in March and April is almost certain to lead to the worst economic recession ever recorded for the EU as well as other advanced economies. The downturn is expected to be far larger than the 'Great Recession' of 2009-2012 triggered by the financial crisis, resulting in the most severe GDP recession on record for the EU and its individual economies.

In its latest Economic Outlook (June 2020) the IMF predicted an unprecedented global recession of -4.9%, thus reviewing downwards its April forecast (-3%), with the US economy experiencing recession of -8% and the euro area of -10.2%, all followed by a rebound in 2021. The European Commission released its Summer Forecast in early July with a slightly less pessimistic outlook, i.e. a recession of 8.3% in the EU and of 8.7% in the euro area, against Eurostat's figures for the first

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quarter of 2020 that already show a drop of -3.2% quarter-on-quarter (-2.6% year-on-year) in the EU in the first quarter .

However, the unprecedented nature of this crisis means that volatility around any macroeconomic forecast remains very high. Therefore, these are subject to continuous revision during the year, with a higher-than-usual degree of uncertainty. The baseline projection relies on key assumptions about the fallout from the pandemic. In economies with declining infection rates, the slower recovery path in the updated forecast reflects persistent social distancing into the second half of 2020, albeit with less severe consequences than the larger-than-anticipated hit to activity during the lockdown in the first and second quarters of 2020; should EU economies continue to struggle to control infection rates, a lengthier lockdown will inflict an additional toll on activity. Moreover, any forecast assumes that financial conditions—which have been exceptionally accommodative in the euro area since 2015, with key interest rates at zero—will remain broadly at current levels. Alternative outcomes to those in the baseline are clearly possible, depending on how the pandemic is evolving.

In the short-term, the COVID-19 crisis is having a massive impact on jobs in the steel sector, with thousands of steelworkers on reduced working or temporary layoffs. Many companies have severely cut production, mostly due to governmental measures in many member states that have de facto stopped steel production (with a few exceptions) and steel-using sectors' activity, automotive at first, leading to large-scale idling of steel facilities. Production in steel-making sectors has finally restarted around mid-May in most member states, but it will take quite some time before new orders translate in new steel consumption.

In April 2020, the COVID-19 outbreak led to an almost complete stop in production in the automotive sector, which is the second largest steel user, and a corresponding slowdown in construction activity, which is, however currently exempt from the lockdown by some governments (and also, typically reacts more slowly to changes in the economic landscape, being more resilient). As a result, the EU steel sector these days works at very low capacity utilisation rates, even lower that those recorded at the time of the financial crisis of 2008-09. The medium-term demand hit created by the pandemic from rising unemployment that is expected to take many months to recover post-lockdown, leading the EU steel industry to an almost unsustainable position which may pose a threat to its ability to compete with major steel-making exporting regions.

As stated above, the COVID-19 outbreak is a short-term symmetric economic shock (i.e. that has hit all over the EU and is not country-specific) whose dramatic effects must be added to the structural problems that the steel sector was already facing before the onset of the current crisis. Even assuming that normal business conditions are restored – provided that no new outbreak occurs – during the second half of 2020, positive effects on economic activity and on steel-using sectors are not likely to materialise before the first quarter of 2021.

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Even after the return to normal business conditions, the EU economy will still be particularly vulnerable as it is exposed to fluctuations in international trade. As the largest contribution to growth during the previous cycle came from exports, a slowdown in export markets will further exacerbate the difficulties that EU economies will face even as the lockdowns pass into memory.

Prior to the pandemic, EU economic growth, albeit slowing down, had continued to be supported by final consumption even as the contribution of exports to growth had begun to wane. Services, contrary to the weakness of the industrial sectors, had proven resilient, being far less exposed to both internal and external competition than the primary sectors. However, even once lockdown measures are removed, after the third quarter of 2020 the EU economy will continue to be subject to several risk factors, such as US trade policy action against is partners, no-deal Brexit and stunted domestic final consumption.

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EU economic outlook 2020-2021

GDP growth

The EU economy was already experiencing a significant slowdown over the second half of 2019, reflecting global trade tensions and the continued downturn in manufacturing – affecting Germany in particular – culminating in marginal GDP growth rates in the fourth quarter of 2019.

The onset of the Covid-19 pandemic with all its disruptions has obviously worsened this trend, resulting in substantial falls in real GDP across the EU in the first quarter of 2020. Even more severe quarterly GDP falls are expected for the data of the second quarter of 2020 (which include April – the month most affected by the general economic lockdown). As a result, in the first quarter of 2020 EU 's real GDP recorded a slump of 3-2% quarter-on-quarter, after the tiny 0.1% growth rate recorded in the fourth quarter.

In year-on-year terms, the EU economy dropped by 2.6%, after 1.2% growth in the fourth quarter of 2019. Individual EU economies recorded comparable GDP falls, with Bulgaria, Romania and Sweden recording marginal quarter-on-quarter GDP growth (Ireland by 1.2%). Germany and – outside the EU – the UK recorded relatively milder drop than other major European economies, i.e. -2.3% year-on-year. France and Italy both experienced a fall of 5.3% year-on-year. In Spain real GDP fall was 4.1% year-on-year.

During the preceding quarters, GDP growth had been led mainly by domestic demand, that had to some extent replaced exports as the main engine of growth during 2018 and 2019 (due to substantial slowdown in international trade), particularly in a largely export-driven economy such as Germany. Data for the first quarter reveal sharply negative contribution to GDP growth from private consumption (-3.2%), and gross fixed capital formation (-3.9% quarter-on-quarter), whose contribution had been positive in preceding quarters. Government consumption proved relatively more resilient and provided only marginally negative contribution to growth (-0.5%). Contribution from exports, reflecting the sharp downturn in international trade before and after the onset of the pandemic, was also quite negative (-3.5%), and so that from imports (-3.2%).

The construction sector in the EU recorded a drop of -4.9% quarter-on-quarter (i.e. the second drop out of the last four quarters) equating with a fall of -3.5% year-on-year. This resulted from a sharp year-on-year fall both in residential investment (-3.1%) and in other construction investment (i.e. private non-residential plus civil engineering, -3.8%).

EUROFER's GDP growth forecast for 2020 is -8.7%, the first recession since 2013 and the harshest ever recorded in the EU. It will be followed by a rebound of 6.7% in 2021.

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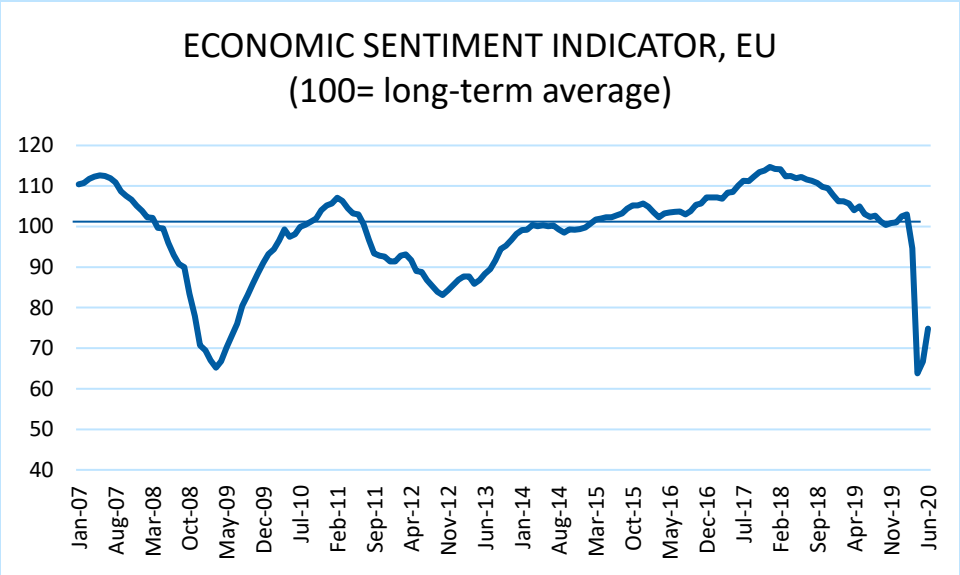
Confidence indicators

Decreasing economic confidence in the EU due to the sharp slowdown in the economic cycle was already clearly visible during the second half of 2019, as the Economic Sentiment Indicator (ESI) for the EU had been moving around the low levels last seen in 2014. The indicator then has plummeted to 94.5 in March 2020 after the onset of the pandemic, the lowest level since November 2013, and then reached the all-time low of 63.8 in April, i.e. the month of the toughest lockdown in economic activity everywhere in the EU. It then rebounded to 74.8 in June as a result of the removal of lockdown measures.

In the course of 2019 industrial confidence had remained in negative territory, due to gloomier expectations about production activity, new orders and stocks of finished products, and followed the same pattern of the ESI, with a steeper-than-ever fall in April and only marginal improvements in May and June. By contrast, sentiment had improved among consumers and had remained stable in services, construction and in the retail sector during 2019, but confidence in these sectors has also shifted to deeply negative levels from March 2020, relatively less pronounced for construction.



Other leading indicators reflect the quick deterioration in the EU economic outlook, despite some short-term improvement in June as a reflection of restarted economic activity, which however sees confidence indicators at very low historical levels. The flash IHS Markit Eurozone PMIs for June 2020 reached 47.5, i.e. a jump from 31.9 in May, which however just followed and the all-time-low of 13.6 in April. Equally, the euro area Manufacturing PMI Output Index in June stood at 48.2, which represented a four-month high, against 35.6 in May.

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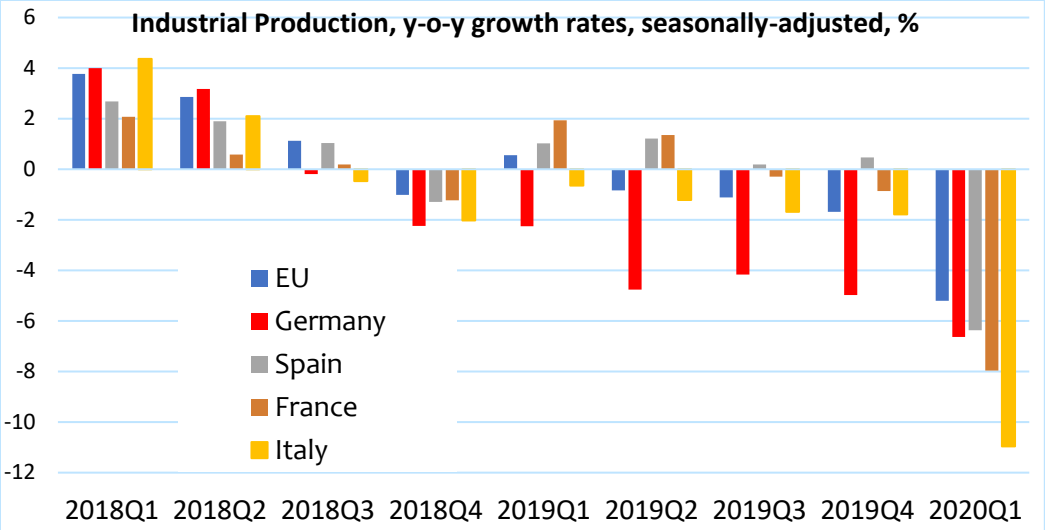

Sharply declining industrial confidence due to the COVID-19 outbreak in the first four months of 2020 follows the prolonged weakness in industrial activity in the EU throughout 2019, which is reflected in real industrial production data, being only partly affected by the industrial lockdown that started in mid-March in most Member States. As a result, the year-on-year decline in industrial production dramatically worsened in the first quarter of 2020 in the EU as well as in major euro area economies.

In Germany, where industrial production had been dropping by around 5% year-on-year in each of the last three quarters of 2019, the fall in industrial output was of 6.6%. Spain – and France in in the second quarter – were the only large EU countries that registered a slight increase in manufacturing output over the last three quarters of 2019 but then in the first quarter recorded a slump of -6.4% and -8% respectively. The most severe impact was felt in Italy, where industrial production in the first quarter of 2020 plummeted by 11%.

Against this background, no substantial short-term improvement in industrial activity is expected, despite recent lockdown removals which are reflected in a monthly rebound in industrial production in the EU and across Member States in May. However, this month-on-month rise has little significance due to the record lows in industrial output recorded in April; the year-on-year change was still negative.

This will mean it will take time before the removal of lockdown measures is translated into new output. Accordingly, a considerable rebound is not likely to materialise before the fourth quarter of 2020 or in early 2021. Even once normal business conditions are restored, lower production levels and rising stock levels in the manufacturing supply chain, coupled with possible trade tensions and Brexit-related uncertainty – at least until 31 December 2020 – are set to take their toll on industrial confidence, contributing to delayed business investment decisions.

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EUROFER foresees a fall in industrial production in the EU of 10.9% in 2020 (further to the drop of 1% already recorded in 2019) and a rebound of 8.8% in 2021.

Economic fundamentals

EUROFER Macroeconomic data Annual % change, unless otherwise indicated	2018	2019	2020	2021
GDP	1.9	1.4	-8.7	6.7
Private consumption	1.6	1.5	-8.0	7.2
Government consumption	1.1	2.0	1.8	1.9
Investment	3.2	2.5	-11.7	8.0
Investment in mach. equip.	2.9	1.0	-17.4	11.8
Investment in construction	3.1	2.7	-10.5	7.6
Exports	3.3	2.7	-14.2	10.6
Imports	3.5	3.4	-13.7	11.0
Unemployment rate (level)	7.2	6.6	8.9	7.9
Inflation	1.8	1.4	0.6	1.3
Industrial production	1.6	-1.0	-10.9	8.8

Due to the global pandemic, the downward trend in world trade has been exacerbated, as reported by short-term (i.e. monthly) trade volumes according to WTO data.

World merchandise trade volume decreased by 2% in the first quarter of 2020 over the fourth quarter of 2019. Lockdown measures across the globe took a toll on global demand, production and trade. Aside from other regions exports (that is to say, the WTO classification of 'others') which grew 0.5% on average, all world regions recorded declines in the first quarter. World imports contracted by 1.9%. With the exception of South and Central America (0.1%), and Asia (0.6%), all the remaining regions registered declines, in particular Europe (-3.2%) and other (-5.3%).

In the first quarter of 2020, as in the previous three quarters – and prior to any possible impact on actual data by the current COVID-19 outbreak – private consumption had remained relatively resilient and continued to provide positive contribution to GDP growth. Labour market fundamentals had continued to improve, albeit at a slower pace than before in most EU countries.

However, job creation continued to be affected by lower levels of production activity in industry and by persistent uncertainty on short-term business conditions. The dramatic deterioration of the economic situation due to the pandemic, the ongoing rise in unemployment – whose dramatic impact is not yet fully reflected in actual data – are therefore expected to completely reverse the picture. The EU28 unemployment rate remained around the levels observed around late 2019, and only marginally increased from 6.4% in February 2020 to 6.7% in May, which however does not yet reflect the dramatic impact of the COVID-19 outbreak. Consumers have

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been suffering from substantial losses in their in disposable income, due to job losses or temporary lay-off or reduction of working time, which will slash private consumption growth.

Other major GDP components are set to pay a high price for the COVID-19 disruption. The combined effect of cooling global GDP growth, increasing trade frictions, policy uncertainty and the ongoing profit squeeze in the corporate sector will curb business investment in machinery and equipment even after the removal of lockdown measures and the full restart of economic activity at least until the third quarter of 2020.

The outlook for construction investment is less negative, as the construction sector is set to be more resilient and, to some extent, less exposed to the huge repercussions of the COVID-19 lockdown. It is thus likely to achieve relatively better performance than other GDP components in 2020.

In addition, government investment and public expenditure are expected to play a rather robust, countercyclical role and could provide a strong contribution to the growth of domestic demand. The role of fiscal policy in providing stimulus could be an approach, as both 'conventional' and 'unconventional' monetary policies (e.g. quantitative easing, negative interest rates) have been deployed by the ECB to a very large extent. However, it is expected that the ECB will provide further support until the end of the current crisis. Further measures are being discussed and/or refined, both at the EU level as well as the state level. The objective is to provide adequate support for, and liquidity to, the economy (both to households and businesses) so as to alleviate the huge costs of the economic lockdown and the related output (and job) losses.

The central EU institutions and bodies have responded to the outbreak-related economic emergency with a detailed set of measures. The Stability and Growth Pact and the Fiscal Compact have been suspended. With regard to monetary policy, the ECB has extended and enhanced its ongoing Asset Purchase Programme (APP, or Quantitative Easing, QE) – that had been launched in 2015 in order to tackle the already weak economic environment. The 'augmented' APP is now called the Pandemic Emergency Purchase Programme (PEPP) will have an overall envelope of €750 billion. Purchases will be conducted until the end of 2020 and will include all the asset categories (i.e. government and corporate bonds) eligible under the previous APP.

The ECB has also continued to provide its forward guidance, leaving its key policy rate unchanged at zero, its deposit facility rates at negative levels (-0.50%) and indicating that its key policy rates will remain at current levels as long as the economic circumstances make it appropriate (i.e. in the absence of any inflationary pressure and as long as economic conditions remain depressed).

The European Commission has launched the SURE fund worth €100 billion. This will be distributed among Member States in order to provide short-time working schemes and tackle unemployment costs. The European Investment Bank (EIB) has committed to leveraging its €25 billion guarantee fund up to €200 billion that will be available for EU Member States.

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In addition, the European Stability Mechanism (ESM) will make €240 billion available in the form of very cheap loans for those EU countries that might have difficulty on government bond markets (Italy, Spain etc).

The above measures total some €540 billion that EU countries can use as additional resources so as to cope with the costs of the recession. Lastly, the Next Generation EU package was finally agreed at the European Council of 17-20 July 2020: it will provide support to the EU economies worth €750 billion, of which grants worth 390 billion and loans worth 360 billion. It will be financed by issuing common bonds for the first time in EU history. The core programme of the package is the so-called Recovery and Resilience Facility (RRF) and will amount to €313 billion.

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The EU steel market: final use

Outlook for steel-using sectors

Prior to the onset of the Covid-19 pandemic, the manufacturing slump in the EU had deepened in the second half of 2019, with the automotive sector registering quarterly falls in production activity since the third quarter of 2018. In most other sectors, output fell as well.

The main exception was the construction industry whose growth, however, lost ground. Persistent headwinds were already blowing before the outbreak of COVID-19, and are likely to continue weighing on the steel-using sectors once normal business conditions are restored.

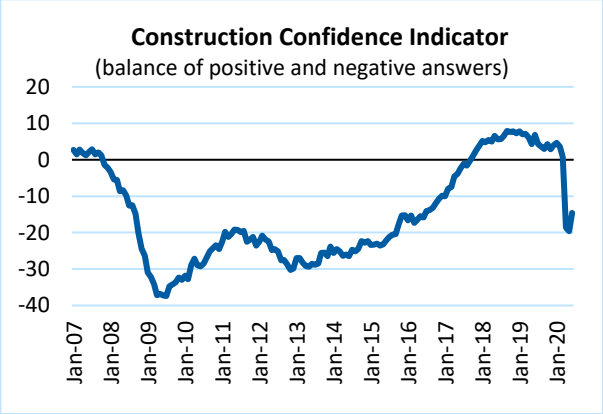
The outlook for output growth has been slashed dramatically for 2020 due to the almost complete shutdown in industrial activity from the second half of March 2020. This resulted in unprecedented falls in output and is likely to lead to the most severe annual output drops ever recorded by the European steel-using sectors.

Construction industry

The momentum of the EU construction sector had lost speed considerably over the last three quarters of 2019, culminating in a growth year-on-year of just 1.5% in the fourth quarter. However, on an annual basis construction recorded another positive performance, at the same growth rate recorded in 2018 (i.e. +3.9%). This was its third consecutive year of strong output growth, higher than other steel-using sectors. In the first quarter of 2020, the onset of the pandemic led to the first drop in output since the fourth quarter of 2016 (-0.9%), albeit not dramatic, and to substantially revised growth prospects for 2020.

Construction industry activity in the first quarter of 2020

In the first quarter of 2020, construction output has been partly impacted by the economic lockdown across the EU, that has only started in mid-March. In addition, the construction sector cycle is usually less responsive and reacts more slowly to economic shocks. Construction output still grew in Germany Austria, Sweden and the Netherlands, as well as in France (albeit negligibly) and also, at moderate rates, in Eastern European countries. It remained unchanged in Belgium, and fell considerably in Italy and Spain, less in the UK.



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In line with actual construction production volumes, gross fixed investment in construction in the first quarter fell, but more steeply, i.e. by -2.2% compared with the first quarter of 2019. This translated into an increase of 0.8% quarter-on-quarter, which provided further evidence of some resilience of the sector, despite the evident slowdown observed throughout 2019. Looking at the performance of individual countries, as in previous quarters Eastern European countries generally recorded positive growth rates.

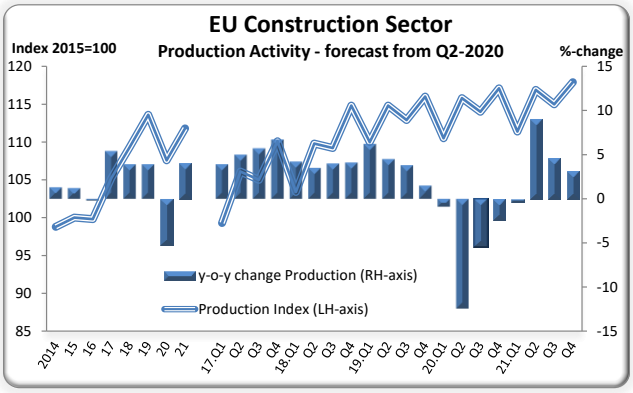
Construction industry forecast 2020-21

Prospects for the EU construction sector are hugely impacted by the economic lockdown which European countries experienced from mid-March to early June, with variations in intensity and with some local lockdowns still in place. This has resulted in closures of construction sites, particularly in civil engineering.

However, some EU countries have explicitly planned to restart public construction activity as quickly as possible, so as to use it as a countercyclical tool during the unprecedented economic downturn. The EU construction confidence indicator had remained well above its long-term average over the first half of 2019 but has continued to decline since then.

This trend has continued in early 2020 according to available figures, before plummeting to record lows in April. It is worth recalling that construction activity at the end of 2019 was already experiencing a slowdown that is not only due to demand-related factors such as the weakening economic fundamentals and a general cooling of market dynamics after several years of strong growth.

Albeit largely affected by the huge disruption caused by the COVID-19 lockdown, the construction industry is expected to perform relatively better – that is, to experience a lower recession – than the other steel-using sectors with regards to the expected trend in production activity.



The residential construction market and, particularly, private non-residential subsectors are expected to be impacted the most by the halt in construction production in the course of 2020. Despite mortgage and business loans set to remain at record lows, the fall in incomes due to the increase in unemployment as a result of the economic lockdown will be strongly unsupportive of housing demand. Until a substantial improvement in the labour market, and growth in wages is seen the residential market will not provide positive contribution to new output in construction.

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Non-residential construction (offices, commercial and industrial buildings), which was already the weakest subsector in 2019 due to subdued investment climate and economic uncertainty, is expected to pay the highest toll to the pandemic-related lockdown. Even after the removal of lockdown measures, the probable continued downturn in the manufacturing industry in the EU will most likely result in delayed investment decisions, with very little benefit for new non-residential investment.

In contrast, the role of civil engineering as a growth engine for the construction sector is expected to strengthen over the forecast period, and to avoid a deeper collapse of the sector as a result of the COVID-19 outbreak. During the economic slowdown in 2019, civil engineering consistently recorded higher growth rates than both residential and non-residential construction.

Under the current, dire economic circumstances, many EU governments have announced that they will provide impetus to the completion of public construction and infrastructure projects, facilitated by to the suspension of the Stability and Growth Pact and the Fiscal Compact. Lower government debt service costs, given the continuity of the ECB action, should provide a very supportive role.

Construction output will drop by -5.3% in 2020, and will rebound by +4% in 2021.

Automotive industry

The EU automotive sector was already suffering its worst slump since the Eurozone crisis of 2009-2012, before the onset of the COVID-19 outbreak that led, in March and April this year, to an almost complete stop in production across EU car plants.

Sluggish domestic and export demand, trade-related uncertainties, emissions woes, shifting patterns in ownership and model ranges took their heavy toll on production activity during 2019. Output in the automotive sector has fallen since the third quarter of 2018, resulting in annual drop of -4.6% over the entire year 2019 (the first since 2013), and equating to year-on-year fall of 16% in the first quarter of 2020 (after -6.5% in the fourth quarter of 2019).

EU passenger car and commercial vehicle demand

In the first quarter of 2020, sales of passenger cars in the EU fell by 25.6%. March, in particular, was the first month when the effects of the COVID-19 pandemic on the market became pronounced: there was a dramatic drop (-55.1%). Over the same quarter, the sale of new commercial vehicles dropped by -23.2%, and in March 2020, demand for new commercial vehicles fell by 47.3% across the EU, as measures to prevent the spread of the coronavirus lead to the closure of dealerships.

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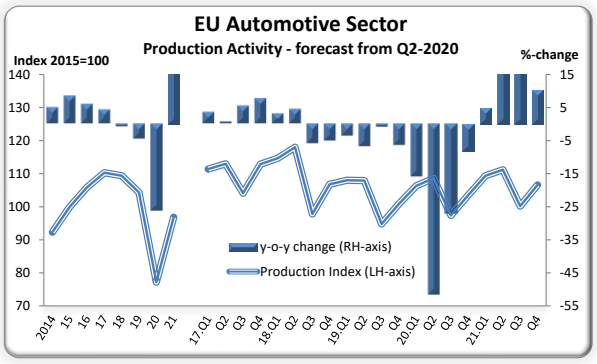
In June 2020, registrations of new passenger cars in the EU totalled 949,722 units, a drop of 22.3% compared to the same month last year. Sales recorded a very pronounced falls in all EU countries, with the only exception of France (+1.2%). Over the first 6 months of 2020, registration dropped by 39.5% compared to the same period of the previous year.

Automotive sector activity in the first quarter of 2020

Production activity in the EU automotive industry fell year-on-year for the sixth consecutive quarter, i.e. by 16% (after -6.5% in the fourth quarter). The combination of already weakening demand for new passenger cars in Europe and in key export markets such as the US, China and Turkey, uncertainty around WLTP and model changes plus – from mid-March 2020 - the outbreak of the Covid-19 pandemic took their heavy toll on production activity in all EU countries.

Automotive industry forecast 2020-2021

Due to the onset of the pandemic, the automotive industry has almost completely shut down and production has been suspended all over Europe, with very few exceptions, although some production sites re-opened already in late April. Huge disruption in the supply chain due to lockdowns and blockages in transport across EU countries have made it very difficult to ensure the supply of materials and components to the industry.



It remains to be seen if and when normal business conditions are restored in the course of 2020. However, assuming that from the third quarter onwards normal business conditions return, it will take time before new orders translate into new deliveries due to persistent transport and supply chain issues, which will remain in place for some time. In addition, demand for new cars from consumers is expected to remain very weak at least until the macroeconomic picture and consumer disposable income improve. This is another source of uncertainty.

In 2021, provided that the industry has been able to restore its production to normal levels, and with WLTP distortions having faded out by then, the launch of new models - many of them electric vehicles – could be a supportive factor, combined with some improvement in real wages and labour market dynamics on the demand side. However, subdued car demand from major markets such as the US, China and Turkey will remain a challenge for EU car exporters.

In addition, trade-related risks remain considerable, with possible disputes with the US on tariffs on EU automobiles and automotive parts and components that still hang over the industry. This

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would continue to impact German and a significant part of the Central European industry, which have extensive trade linkages with the US market and are closely integrated into European auto supply chains.

Output in the automotive sector is expected to be hit the most compared to all other steel-using sectors in the course of 2020, with an annual slump of -26% (the most severe on record), followed by a rebound of 25.3% in 2021.

Mechanical engineering

In line with expectations, production activity in the EU mechanical engineering sector registered negative growth in the first quarter of 2020, which was equally affected by the industrial lockdown in response to the Covid-19 outbreak as the lack of new orders took its toll on production activity. As a result, the downward trend in output observed in previous quarters was exacerbated, with a fall of -6.8% year-on-year (against -1% in the fourth quarter of 2019).

Mechanical engineering activity in the first quarter of 2020

Production activity in the EU mechanical engineering industry fell -8.6% year-on-year in the first quarter of 2020 (after a drop of -1% in the fourth quarter), as a continuation of the existing negative trend.

The negative impact of slowing capital investment growth in the EU, weaker international trade, slowing global economic growth, protectionist policies and continuing Brexit uncertainty had continued to outweigh positive support for output growth from orders that were still in the production pipe line throughout 2019. As a consequence, growth in production activity continued to decline up to the fourth quarter of 2019, resulting in an annual drop in output, albeit very modest, of -0.3%.

The business climate in the mechanical engineering sector had continued to deteriorate in general due to trade-related and Brexit uncertainty as well as on incoming orders and near-term production activity, which led to investment decisions being postponed. This trend has been further worsened by the onset of the Covid-19 pandemic and its unprecedented consequences on the industry. Activity came to almost complete shutdown from mid-March, which has significantly impacted figures for the first quarter of 2020.

Mechanical engineering forecast 2020-2021

The lockdown measures and the shutdown of industrial activity across the EU in the first quarter of 2020 are set to take a heavy toll on the sector, with an almost unprecedented output loss at least until the end of the second quarter (provided that lockdown measures are eased or removed and normal business conditions resume).

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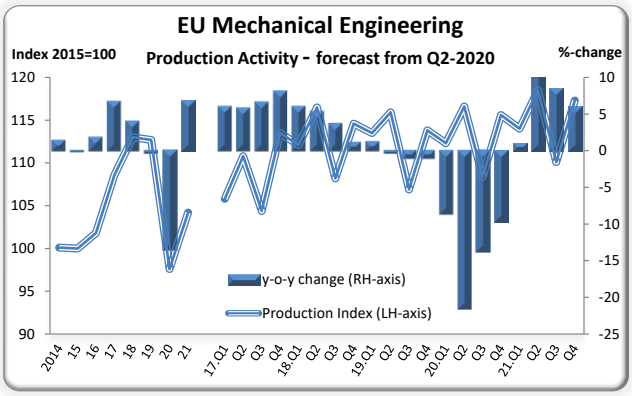
Due to the relatively strong reliance of the mechanical engineering sector in the EU on export markets and the investment climate, prospects for the post-pandemic scenario are far from bright. The combined effect of persistently low business confidence, trade friction, weakened demand in key domestic markets in the EU, policy uncertainty and the likely weakness of the manufacturing sector in general will continue to put the brake on investment decisions. Amid such levels of uncertainty, companies in most downstream sectors will likely refrain from investment in new machinery and equipment and will instead favour maintenance, debottlenecking and the upgrading of existing machinery.

Business conditions are expected to improve only slightly in 2021 as the manufacturing sector in the EU begins to recover from the huge disruptions linked to the COVID-19 pandemic and will restore normal production capacity, with the global supply chain functioning more normally. However, it will take time before a rebound in orders feeds through to production activity. On the other hand, in the post-pandemic scenario, easy credit conditions and financial support from policymakers should prove supportive.

Mechanical engineering output is expected to fall by -13.4% in 2020, and to rebound by 6.8% in 2021.



Steel tube industry

Production activity in the EU steel tube industry has become more closely aligned with downstream sectors such as construction, automotive, the metal goods and mechanical engineering sectors. It has thus moderately declined over the second half of 2019, further to modest growth rates or even negative growth rates recorded between the second half of 2018 and the first half of 2019. This trend has been exacerbated dramatically by the outbreak of the Covid-19 pandemic in March 2020, resulted in an even steeper fall in steel tube output in the first quarter of this year.

Steel tube industry activity in the first quarter of 2020

In the first quarter of 2020, output in the EU steel tube industry fell by -13.3%, a much more pronounced fall than the -1.4% recorded in the fourth quarter of 2019 (that had resulted, over the whole year, in a marginal decrease of 0.3%).

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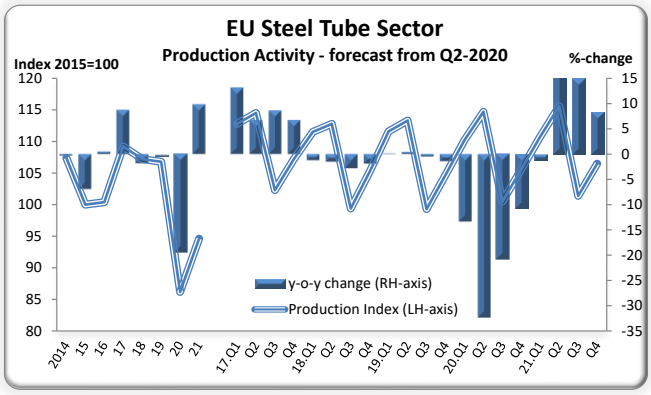
At the individual country level, the divergence in output trends remained as significant as in preceding quarters. In Central Europe production activity registered an increase, whereas in many Western EU countries steel tube output continued to fall rather sharply.

The relative resilience of the tube industry, which recorded more moderate decreases in output compared to other steel-using sectors, can be partly explained by the links with the construction sector in the EU, which had a positive impact on demand for steel tubes in construction applications up to the first quarter of 2020. This somewhat mitigated the negative impact of deteriorating demand conditions in other sectors, such the automotive industry, mechanical engineering and the metal goods sector.

Steel tube industry forecast 2020-2021

Output in the EU steel tube industry is expected to be heavily impacted by the industrial lockdown that has hit the EU further to the COVID-19 outbreak, with visible effects at least until the end of the second quarter of 2020.



Once the lockdown measures are removed and the pandemic ends– at a time and pace which is essentially unknowable at the moment – the outlook for demand for large welded tubes from the oil and gas sector is expected to remain very weak. Most important regional projects from which EU-based large welded tube producers could benefit have been put on hold and little progress has been made over the past few months in solving the political and commercial issues hampering the completion of some specific pipeline projects. The recent collapse of global oil demand (and oil prices) reinforces this difficulty.

The demand outlook from the other downstream steel tube market segments is expected to remain fairly sluggish even after the return to normal business conditions. This will produce some positive effects on output from Q1 2021. Demand from the construction sector looks set to recover, albeit most likely at a somewhat reduced growth rate. Tube demand from the automotive and engineering sectors is forecast to remain rather weak, even if these sectors restore their production activity to normal levels and supply chain disruptions are sorted out. Import pressure on steel tube markets in the EU will remain high, particularly for the commodity segment.

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Steel tube output will fall for the second consecutive year in 2020, at a much faster rate than in 2019 (-19.4% vs -0.3%). A rebound of 9.8% is foreseen for 2021.

Electrical domestic appliances industry

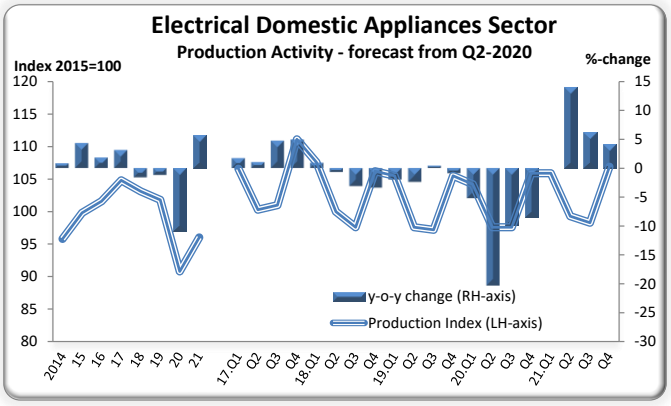
Production activity in the electrical domestic appliances sector dropped by a severe -5.2% in the first quarter of 2020, further to a decrease of -0.9% in the fourth quarter that had resulted in an annual output decrease in 2019 by -1.2% (revised, formerly -1.7%).

The domestic appliances sector, as well as other steel-using sectors, has been severely impacted by the economic lockdown due to the onset of the pandemic in mid-March 2020. This has further exacerbated the negative trend in production of the electrical domestic appliances sector in the EU recorded since the third quarter of 2018.

Electrical domestic appliances industry activity in the first quarter of 2020

Production activity in the EU's electrical domestic appliances sector fell by -5.2% year-on-year in the first quarter of 2020.

Output is expected to drop by -10.8% in 2020 and to recover by 5.7% in 2021.



Total EU steel-using sector output

Total production activity in EU steel-using sectors increased by a meagre 0.3% (which is a revision from the former drop of -0.2%) in the whole year 2019 - further to an increase of 2.9% in 2018 - which was the first drop in output since 2013.

The negative growth in 2019 was the result of an increase in construction output and a drop in all other steel-using sectors (the most pronounced being recorded by the automotive sector). This negative trend continued at a faster pace in the first quarter of 2020. This quarter was impacted – albeit only from mid-March – by the lockdown measures implemented almost all over the EU due to the Covid-19 pandemic, that de facto prevented industrial production.

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Total steel-using sector activity in the first quarter of 2020

Further to the downturn already observed in the preceding quarters. Production activity in steel-using sectors of the EU experienced an even steeper fall in the first quarter of 2020. Since the second quarter of 2019 (with flat growth), manufacturing output has been slowing down considerably compared to the bullish cycle of 2017 and the first half of 2018, due to international trade tensions and lower exports to third countries, decreasing industrial confidence and growing business uncertainty.

As a result, in the fourth quarter of 2019 steel-using sectors' output dropped by -1.3% year-on-year, although 2019 annual growth was still positive (i.e. a mere 0.3%). In the first quarter of 2020, total steel-using output dropped by -7.2% as a result of the pandemic-related lockdown exacerbating the existing negative trend.

In particular, since mid-2018, automotive production activity has been under severe pressure. Meanwhile, total production activity in the steel-using sectors has held up somewhat better thanks to the resilience of the construction sector because it is largely protected from the ongoing weakening dynamics in foreign trade, but has also been largely affected by the disruptive impact of the Covi-19 pandemic in the first quarter 2020.

Overall output in the steel-using sectors in the first quarter of 2020 registered negative growth in all EU economies (at different rates across countries) with the only exceptions of the Czech Republic and Poland.

Year-on-year %-change EU Steel Weighted Industrial Production (SWIP) index												
	% Share in total Consumption	Year 2019	Q1'20	Q2'20	Q3'20	Q4'20	Year 2020	Q1'21	Q2'2	Q3'21	Q4'21	Year 2021
Construction	35	3.9	-0.9	-12.4	-5.4	-2.4	-5.3	-0.4	9.0	4.6	3.2	4.0
Mechanical engineering	14	-0.3	-8.6	-21.5	-13.7	-9.6	-13.4	1.0	12.7	8.4	6.0	6.8
Automotive	18	-4.6	-16.0	-51.5	-26.8	-8.1	-26.0	5.0	79.9	30.2	10.4	25.3
Domestic appliances	3	-1.2	-5.2	-20.2	-9.9	-8.5	-10.8	0.0	14.1	6.2	4.2	5.7
Other Transport	2	9.5	-3.7	-23.5	-13.7	-14.5	-13.6	-5.1	21.5	9.0	8.9	7.4
Tubes	13	0.3	-13.3	-32.2	-20.8	-10.6	-19.4	-1.1	19.8	15.1	8.3	9.8
Metal goods	14	-1.4	-5.5	-18.6	-9.0	-5.9	-9.8	0.5	16.8	8.6	6.6	7.8
Miscellaneous	2	0.0	-4.7	-13.4	-9.1	-6.8	-8.5	-1.8	9.5	6.3	5.5	4.7
TOTAL	100	0.3	-7.2	-24.6	-12.9	-6.3	-12.8	0.5	20.8	10.7	5.9	8.9

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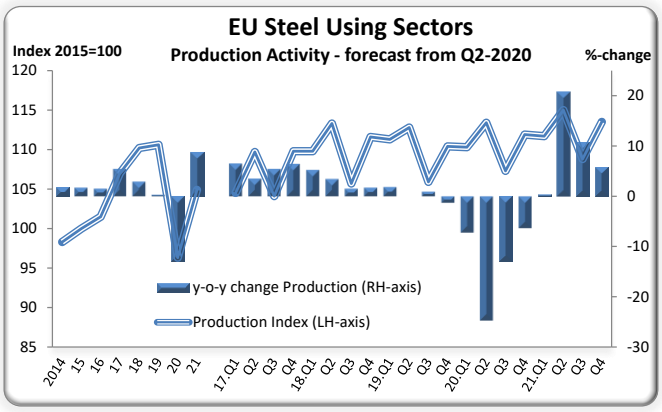
Total steel-using sectors forecast 2020-2021

The Coronavirus outbreak and the related industrial and economic lockdown experienced since March this year are having a massive impact on steel-using sectors' output, with plant closures, capacity reduction (permanent and/or temporary) and huge supply chain disruption.



These conditions are expected to continue to weigh their negative effects on industrial activity even once lockdown measures are either loosened or removed in their entirety. Economic growth and global trade are set to remain weak until early 2021, with repercussions for export-oriented sectors (automotive in particular). This will also affect EU investment via severely weakened business confidence levels. Continued resilience in construction (that is: probably less negative output growth than other sectors in 2020) may cushion negative trends in other steel-using sectors.

Total steel-using sectors output is set to fall by -12.8% in 2020 and to recover by 8.9% in 2021.

Real steel consumption

Real steel consumption fell by 5.8% year-on-year in the first quarter of 2019 and stood at 38.6 million tonnes, after -8.1% in the fourth quarter of 2019. Over the entire year 2019, real consumption had fallen by -2.6% compared to 2018.

Real steel consumption in the first quarter of 2020

The continued, pronounced slowdown in production activity of steel-using sectors, coupled with reduced steel intensity, led to a fall of -5.8% year-on-year in real steel consumption in the first quarter of 2020. This was the fourth consecutive year-on-year drop.

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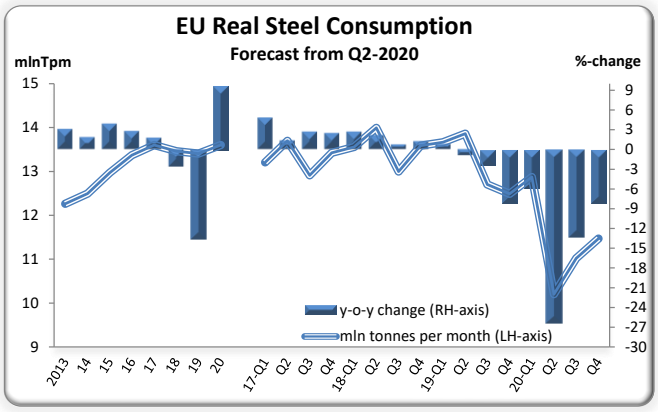
The first quarter's real consumption figure resulted from worsening market conditions that had materialised over the preceding quarters. Continued economic slowdown over the second half of 2019 and widespread business uncertainty, plus decreasing steel intensity – the ratio of steel consumption to steel-weighted production in steel-using industries – reflecting the fact that during economic downturns steel using industries tend to reduce the steel content in their final output unit – were key drivers behind this negative performance.



Forecast for real consumption - % change year-on-year											
Period	Year 2019	Q1'20	Q2'20	Q3'20	Q4'20	Year 2020	Q1'21	Q2'21	Q3'21	Q4'21	Year 2021
% change	-2.6	-5.8	-26.4	-13.3	-8.2	-13.6	19.1	15.6	15.6	8.6	9.7

Real consumption will be hugely impacted by the Covid-19 pandemic and the shutdown in economic activity, particularly steel-using industries. As the de-stocking process, which had already taken place substantially during 2019 reflecting poor expectations, will ease considerably, real consumption will fall at unprecedented rates in 2020, i.e. -13.6% in 2020. Real consumption will recover in 2021, together with the improvement in steel demand, by 9.7%.

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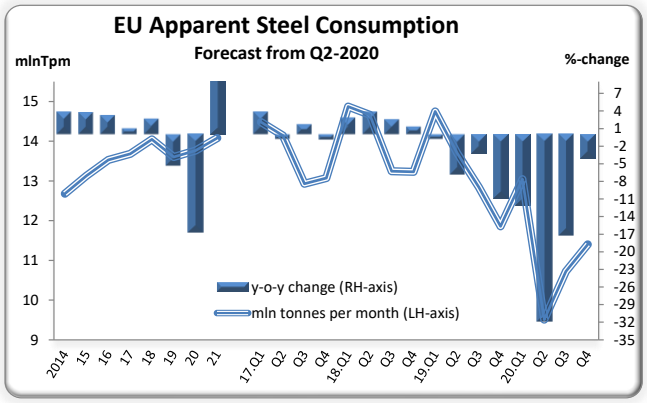
The EU steel market: supply

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

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 2020



EU28 apparent steel consumption fell by 12% year-on-year in the first quarter of 2020 – the fifth consecutive fall, even sharper than that recorded in the fourth quarter of 2019, i.e. -10.8% – and amounted to 37.6 million tonnes. The outbreak of the Covid-19 pandemic that had led to an almost complete stop in industrial activity from mid-March 2020 only partly took its toll, but steel demand had already been impacted. Substantial deterioration in business conditions due to the onset of the pandemic were added to existing downside factors that had already seriously depressed steel demand over the preceding quarters: uncertainty about near-term business conditions, weak demand from the manufacturing sector and continued stock reduction to record lows have resulted in this exceptional quarterly fall.

As a result of the above downside factors, apparent consumption in the EU fell by 5.3% over the entire year 2019, compared to 2018, when apparent consumption increased year-on-year by 2.6%.

EU domestic and foreign supply

In line with what had been seen in preceding quarters, imports of steel products from third countries into the EU market – including semi-finished products – decreased markedly over the first quarter as a result of the safeguard measures applied by the EU, resulting in a year-on-year drop of 20%, slightly less pronounced than the -24% recorded in the fourth quarter.

In the full year 2019, imports from third countries had decreased by 11%, against an increase of 12% in 2018. However, this yearly reduction conceals very high volatility in imports which can be

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seen when looking at monthly data, and this trend has also continued in the first four months of 2020. Imports jumped to all-time record level of 4.4 million tonnes in August 2019, followed by a much lower tonnages in the subsequent months down to low levels in historical terms, with more stable figures and lower volatility up to April 2020.

Meanwhile, domestic deliveries by EU steel suppliers fell by 8% year-on-year in the first quarter of 2020, the same rate recorded in the fourth quarter of the year. Over 2019, deliveries fell by -4.2% compared to 2018, when they had increased in yearly terms by 1.2%. Business conditions in the EU steel market have become increasingly difficult in the course of 2019 as price pressure stemming from still high levels of imports has intensified amid wildly fluctuating monthly imports, falling steel demand and destocking. The Covid-19 outbreak in mid-March 2020 has had only limited effects in terms of actual data in the first quarter of 2020 but is set to produce even bigger business disruption and to depress steel demand by an unprecedented extent.

Apparent consumption is expected to fall by -16.6% in 2020, and then to rebound by 14% in 2021.

EU apparent steel consumption - in million tonnes per year										
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020(f)	2021 (f)
Million tonnes	141	141	146	152	156	158	162	153	128	146

Forecast for EU apparent steel consumption - % change year-on-year											
Period	Year 2019	Q1'20	Q2'20	Q3'20	Q4'20	Year 2020	Q1'21	Q2'21	Q3'21	Q4'21	Year 2021
% change	-5.3	-12.0	-31.8	-17.2	-4.0	-16.6	2.7	35.1	17.9	6.0	14.0

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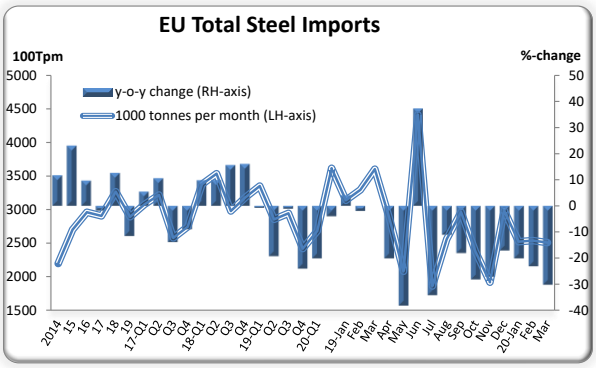
Imports

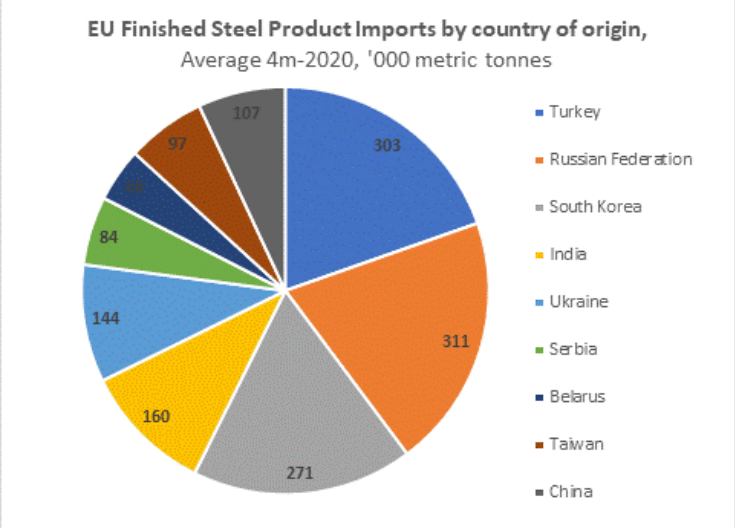
Total imports of steel products into the EU28 – including semi-finished products – fell by a pronounced 20% in the first quarter of 2020. In the whole year 2019, imports from third countries had decreased by 11%, against an increase of 12% in 2018. During the year 2019, monthly data has shown increasing volatility, which has nevertheless eased considerably after an exceptional peak in August. This relatively more stable trend has continued up to April 2020.



In the first four months of 2020 – as April is latest monthly data available at the time of publication - finished product imports fell by 16% year-on-year due to a 17% year-on-year drop in flat product imports and a 11% reduction in long product imports.

Imports by country of origin

According to April 2020 data, the main countries of origin for finished steel imports into the EU market were Turkey, the Russian Federation, South Korea, India and Ukraine. These five countries represented 70% of total finished steel imports into the EU.



As a result of continuously decreasing exports to the EU in the first four months of 2020, Turkey was no longer alone in its position of largest exporter of finished steel products to the EU, with 18% of total EU finished steel imports, as and South Korea held the same exports share. These countries were followed by the Russian Federation with 17%. In the first four months of 2020, imports from Turkey have decreased by 51%, imports from China by 40% and imports from India by 28%. By contrast, imports from the Russian Federation and South Korea have increased by +8% and +4% respectively.

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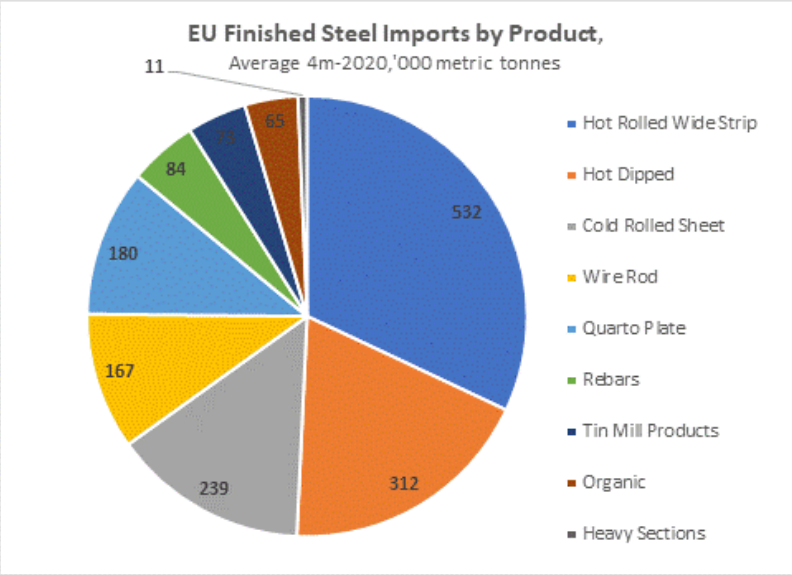
Imports by product category



The decline in EU imports of finished steel products that had followed a substantial increase during 2018 continued throughout 2019, despite some volatility, up to April 2020.

Customs data show that flat product imports dropped by 22% year-on-year over the first quarter of 2020. Overthe first four months of this year imports of flat products fell by 17%. This was the fourth consecutive drop (it was -21% in the fourth quarter of 2019). Meanwhile, long product imports fell by 17% on a yearly basis in the first quarter of 2020, and by 11% in the first four months of 2020. The drop in the first quarter followed the decrease of 35% already recorded in the fourth quarter of 2020. The share of long products out of total finished steel product imports was 21%.

Within the flat product market segment, over the first four months of 2020 imports of strip mill and hot-rolled wide strip fell by -26% and 32%. Imports of hot-dipped galvanised sheet dropped by -21%. Falls in imports of quarto plate, contrary to what reported in February 2020, recorded only a moderate decrease of -1%.

All long product imports were significantly lower in first for months of 2020 compared to the same period of 2019, with the only exception of wire rod (+2%). The sharpest falls were recorded for heavy sections (-68%) and rebars (-36%), while merchant bars recorded a decrease of -11%.

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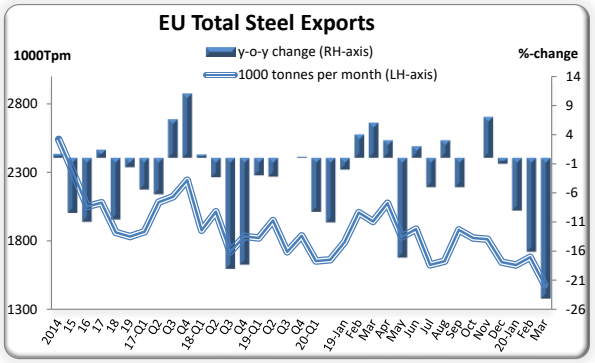
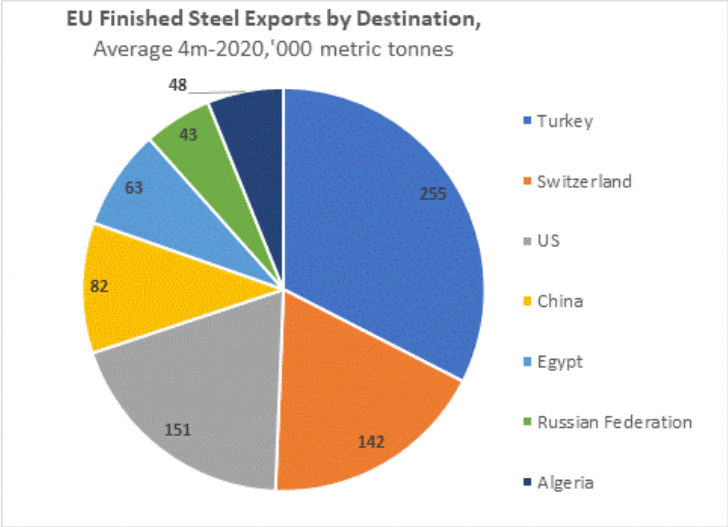
Exports

Total EU exports of steel products to third countries decreased by -9% year-on-year in the first quarter of 2020, further to flat developments in the fourth quarter of 2020 (revised, formerly 0.5%). Over the first four months of 2020, total steel imports fell by 13% compared to the same period of the previous year, as a result of a decrease of a drop of -15% in exports of flat products and a drop of 13% in the exports of long products. Over the same period, exports of finished steel products dropped by 15%.



Exports by country

The main export destinations for EU steel exports over the year 2019 were Turkey, Switzerland and the United States, followed by China and Egypt, with some changes compared to the pattern in key export destinations seen earlier during the year 2019. This trend has continued up to the latest monthly data available (April 2020), when the above five countries together accounted for 42% of total EU finished product exports over this period.



In the first four months of 2020, exports of finished products to Egypt rose by +7% and to China by +3%. By contrast, exports to the US recorded a sharp decrease (-43%). Exports to Switzerland and Turkey also dropped, but much less significantly (both by -10%). Exports to the Russian Federation increased only marginally (+1%).

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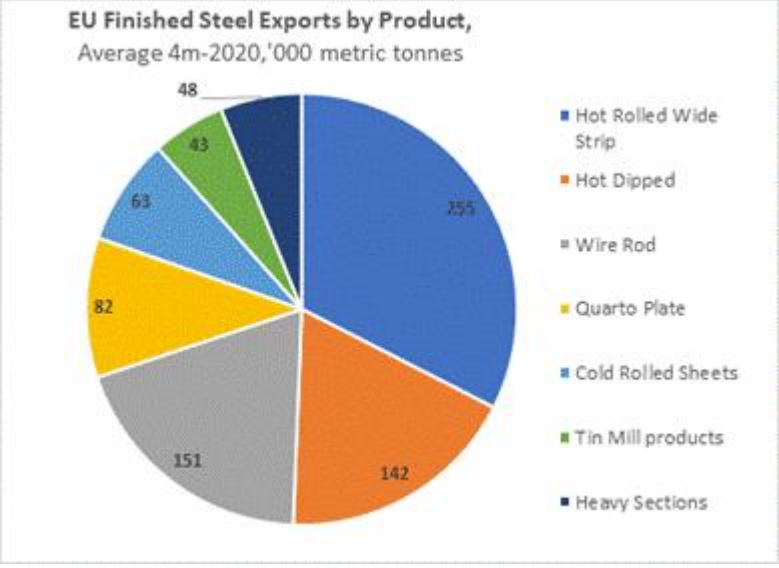
Exports by product category

In the first four months of 2020, flat product exports accounted for 66% of finished product exports and long product exports accounted for the remaining 34%.



Over this period, exports of flat products recorded a decrease of -15% (versus an increase of 5% in the whole year 2019), and exports of long products decreased by -13% (further to a decline of -9% in the year 2019).

Within the flat product segment, exports of all individual products decreased compared to the previous year, with the only exception being quarto plate (+7%). Exports of hot-rolled wide strip recorded the most pronounced fall (i.e. -31%), followed by hot rolled flat strip mill (-30%), and strip mill (-21%), while all other products recorded more moderate decreases.

Among long products, exports of rebar and wire rod recorded the most significant drops, while merchant bars and heavy sections fell only slightly.

Trade balance

The EU's total steel product trade deficit amounted to 1.031 million tonnes per month over the first four months of 2020. In February 2020, to which the latest report referred, there was a trade surplus in long products thanks to a considerable surplus in heavy sections. In the first quarter of 2020, trade deficit of total steel products amounted to 1.032 million tonnes. In detail, there was a deficit of 482 kilotonnes in flat products and a surplus of 82 kilotonnes in long products.

As far as the trade deficit with individual trade partners is concerned, the largest trade deficit in finished products was with South Korea with a deficit of 263 kilotonnes per month, followed by Russia with 257 kilotonnes and Turkey with 62 kilotonnes. The major destination countries for EU finished steel exports with a trade surplus over the first four months of 2020 remained the US, Switzerland and Algeria.

It is worth noting that, once normal business conditions are restored after the end of the COVID-19 pandemic and steel demand picks up again, the combination of still-volatile monthly steel imports and the increased capacity of major exporting third countries will continue to pose a serious risk for EU steel producers. The final safeguards may have undergone some

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improvements in their design, but the safeguard itself keeps the door open for historically high import volumes. These are imports which under the safeguard are allowed to increase further, even as market conditions deteriorated. The risk is that any growth of EU steel demand in early 2021 would mostly benefit imports due to the unused quota transfer mechanism.

The EU market therefore remains at risk of being destabilised by third country imports to the detriment of EU domestic producers. The root cause of the challenges faced by the EU sector today is, still, global overcapacity. Global overcapacity is still running far ahead of growth in worldwide production. Moreover, excess capacity is still being built up without solid economic justification in countries such as China, Indonesia, Iran, Russia, or Turkey. The safeguard alone will not be sufficient in countering this threat.

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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

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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. It is used as a proxy for real steel consumption. Activity in the steel-using sectors is weighted with the relative share of each sector in total steel consumed by all sectors.

Real steel consumption: Real consumption is the use of all steel products used by steel-using sectors in their production processes, also referred to as the 'final use' of steel products, adjusted for the stock cycle.

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

If apparent consumption exceeds real steel consumption, the surplus is stocked in the distribution chain. If apparent consumption is less than real steel consumption, inventories are being withdrawn.

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

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

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

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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.

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About the European Steel Association (EUROFER)

EUROFER AISBL is located in Brussels and was founded in 1976. It represents the entirety of steel production in the European Union. EUROFER 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.

The European Steel Association 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 330,000 highly-skilled people, producing on average 160 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.