

ECONOMIC REPORT

# Economic and steel market outlook 2020-2021

Second quarter report  
Data up to, and including, Full year 2019

12 May 2020

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**EUROFER**  
The European Steel Association

# Introduction

The COVID-19 outbreak across the EU and all world regions has slashed steel consumption forecasts as well as the overall economic outlook. Shutdown measures implemented by governments starting from March 2020 have hugely impacted manufacturing activity and steel-using industrial sectors. 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, before the onset of the pandemic.

Actual data for apparent consumption reported here refers to the fourth quarter of 2019 and the whole year 2019, and therefore do not yet reflect the dramatic deterioration in economic prospects and steel consumption outlook that has materialised since March 2020. The outlook for this year and for 2021 is obviously particularly affected by the disruption caused by the pandemic and is likely to be revised significantly over the course of the year, depending on the length and magnitude of the crisis. The extension of the containment measures that have been put in place in EU Member States, the subsequent lockdown of industrial activity, and the unprecedented nature of this crisis, are not without consequence. Uncertainty and volatility surrounding possible developments in the coming months means no forecast could be considered reliable. EUROFER will temporarily not publish, in the context of its Economic and Market Outlook reports, figures quantifying its forecasts for 2020 and 2021.

Apparent steel consumption in the EU fell by -10.8% year-on-year in the fourth quarter of 2019, after a drop of 1.6% in the third quarter, resulting in yearly fall of -5.3% for the entire year 2019, that was the worst performance in EU steel demand since 2012. The negative trend in steel demand seen in the fourth quarter of 2019 is the result of the continued slump in EU's manufacturing sector due to weakened exports and investment that has become more pronounced during the second half of last year, coupled with escalating trade tensions between the US and its major trading partners. Equally, data for the fourth quarter of 2019 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, reduction in workforce and cuts in production are already taking 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. We assume that, according to confinement and lockdown easing schemes that have been set out by most EU governments, from the beginning of the third quarter production should have restarted again in almost all industrial sectors. The coming quarters will nevertheless be determined by some global restrictions on economic activity.

## EU steel market overview

EU28 apparent steel consumption fell by -10.8% year-on-year in the fourth quarter of 2019 (that is for the fourth consecutive quarter, after a drop of 3% - after the revision of the data - in the third quarter of 2019) and amounted to 34.1 million tonnes. The stock cycle became even more negative than in the two preceding quarters, in advance of a further deterioration in final steel use. This reflected worsening business conditions in the steel-using sectors further to a steeper-than-expected reduction in stocks over the second quarter of 2019. During 2019, the challenges that the EU sector has to face have become more severe, with even more negative repercussions for market conditions. The continued downturn in steel demand led to the fourth consecutive fall year-on-year in domestic deliveries in the EU in the fourth quarter of 2019 (i.e. -4%, following a decrease of -2.8% in the third quarter). After marginal decrease in the third quarter (by 1%), in the fourth quarter imports from third countries dropped by 24% and amounted to 7.3 million tonnes, accounting for 21.2% of EU steel demand.

As in preceding quarters, developments in total imports continued to conceal distortions at the individual product level. These are essentially caused by 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, it is expected that once normal market conditions will be restored and steel demand will pick up again persisting import pressure – resulting from 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 make it rather complicated to produce reliable forecast 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 put a stop to new steel orders (on the supply side) – although there are already signs of some restart in automotive and other sectors – as well as on 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; therefore it will take time before the end of industrial lockdown leads to substantial output increases.

## EU steel-using sectors

Over the course of 2019, business conditions in the manufacturing industry have continued to deteriorate. This downward trend 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. Total output in steel-using sectors fell by -1.6 after 0.4% growth in the third quarter. In the whole 2019 marginally decreased by 0.2% compared to 2018, against a growth of 2.9% in the preceding year.

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 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, particularly the manufacturing and automotive sectors. It is almost certain to lead to the worst economic recession ever recorded for the EU as well as other advanced economies. The downturn is likely to be far larger than the 'Great Recession' of 2009-2012 triggered by the financial crisis.

In its latest Economic Outlook (April 2020) the IMF has predicted an unprecedented global recession of -3%, with the US economy experiencing recession of -5.9% and the euro area of -7.5%, all followed by a rebound in 2021. With the number of infected people rising across the continent and partial or full lockdown measures in place in most European countries, the economic impact from the health crisis is going to be massive, with the EU heading for an historically deep recession in the first half. Eurostat's preliminary figures for the first quarter of 2020 already show a drop of -3.5% quarter-on-quarter in the EU. Given the extension and escalation of containment measures in many countries, 2020 average GDP growth predictions for the EU by major forecasters have been slashed significantly from the previous forecast releases. The unprecedented nature of this crisis means that volatility around any macroeconomic forecast remains extremely high.

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, or are about to, severely cut production. Other significant cuts are imminent or being actively considered, mostly due 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 only restarted in Germany and – to a lesser extent – in Spain and Italy in the second half of April, and it will take quite some time before new orders will translate in new steel consumption.

The COVID-19 outbreak has 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 than 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. Restrictions on economic activities and the free movement of citizens are only expected to be fully removed after the end of the second quarter. This implies that normal business conditions will only be restored – provided that no new outbreak occurs – during the second half of 2020. There would thus be positive effects on economic activity and on steel-using sectors from the first quarter of 2021 onwards.

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 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 its 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. This affected Germany in particular. As a result, in the fourth quarter of 2019 EU economic growth was 0.2% quarter-on-quarter, losing ground after the 0.4% growth rate recorded in the third quarter. In year-on-year terms, GDP growth was 1.2%, slowing from 1.5% in the third quarter. Germany also slowed in year-on-year terms, that is 0.5% after 0.6% in the third quarter (for a tiny 0.1% quarter-on-quarter), but performed better than expected as recession fears had materialised during 2019 due to the severe manufacturing downturn, particularly in automotive. Among other major euro area economies, France ended the year with a growth of 0.9%, lower than 1.5% in the third quarter, whereas Italy continued to record poor GDP growth (0.1% year-on-year after 0.5% in the third quarter). Outside the euro area, Poland continued to record comparatively high GDP growth (4%, after 3.7% in the third quarter). The UK experienced a tiny 0.1% quarter-on-quarter increase due to the uncertainty before the general elections, resulting in a year-on-year growth of 1.1% (1.3% in the third quarter).

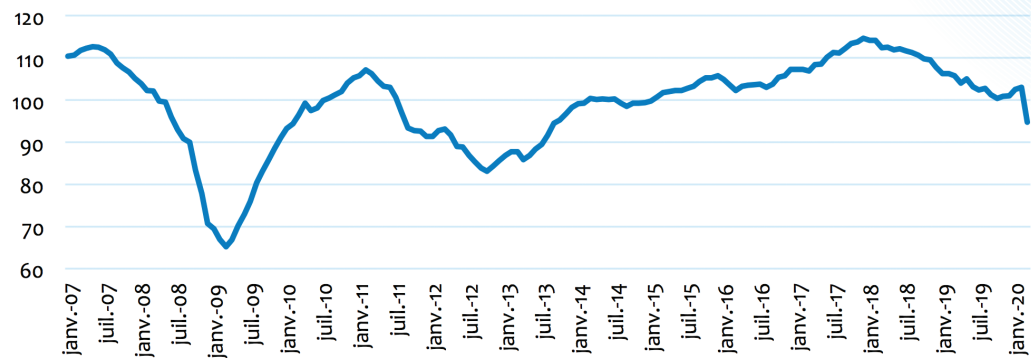
GDP growth in the fourth quarter of 2019 was mainly led, as in preceding quarters, by domestic demand. Data show a rebound in gross fixed capital formation (+3.2% quarter-on-quarter), that followed a drop of 2.7% in the third quarter, despite gloomy business expectations and delayed investment decisions. Imports also contributed considerably to GDP growth (+1.6%), as a result of resilient household demand, thereby offsetting the slowdown in exports. The construction sector in the EU recorded modest growth in investment in the fourth quarter (0.2%), after a growth of 1.2% in the third quarter of 2019, as a result of a drop in public construction investment (also due to the seasonal pattern) and an increase in residential investment.

As a result, GDP growth in the EU in the whole 2019 was 1.4%, lower than the 1.9% recorded in 2018 – and the lowest growth rate since 2013. Most major EU economies recorded lower growth rates in 2019 than they had in 2018. Germany grew by 1.5% in 2018 and 0.6% in 2019, France by 1.7% in 2018 and 1.3% in 2019, Italy by 0.8% in 2018 and by 0.3% in 2019, and Spain by 2.4% in 2018 and 1.9% in 2019. Poland grew by 4.1% in 2018 and 5.1% in 2019. The UK, still a member of the EU during the period, grew by 1.3% in 2018 and by 1.4% in 2019.

## **Confidence indicators**

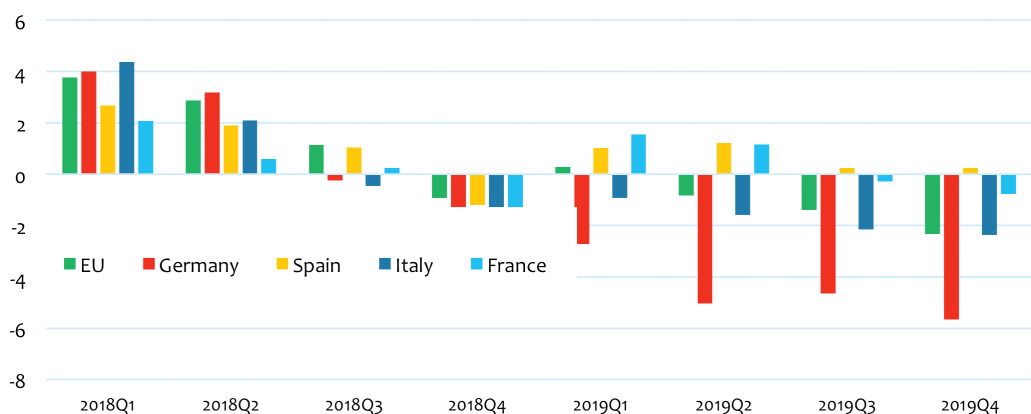
The Economic Sentiment Indicator for the EU had been stable or recovering in November and December 2019, though it was still close to low levels last seen in 2014. The indicator then plummeted to 94.8 in March, the lowest level since November 2013. In the course of 2019 industrial confidence remained in negative territory, recording further decreases in November and December 2019 due to gloomier expectations about production activity, new orders and stocks of finished products. By contrast, sentiment had improved among consumers and had remained stable in services, construction and in the retail sector.

**ECONOMIC SENTIMENT INDICATOR, EU**  
(long-term average=100)



Other leading indicators reflect the quick deterioration in the EU economic outlook. The flash IHS Markit Eurozone PMIs for April 2020 was 13.5 (29.7 in March), which is the lowest since July 1998. Equally, the Flash Eurozone Manufacturing PMI Output Index stood at 18.4 (38.5 in March), which is another record low (the lowest since June 1997).

**YEAR-ON-YEAR INDUSTRIAL PRODUCTION CHANGE, %**



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. The year-on-year decline in German industrial production deepened from the second to the quarter of 2019, falling by around 5% year-on-year in each of these three quarters. 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.

Against this background, any substantial short-term improvement in industrial activity should be ruled out until the removal of lockdown measures. This will mean it will take time before the removal 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.

## Economic fundamentals

In the fourth quarter of 2019 and early 2020 (January to February) the downward trend in global trade has continued, as reported by short-term (i.e. monthly) trade volumes according to WTO.

Exports and imports of selected traders trended down year-over-year in January and February 2020. The U.S. was the only economy that did not experience negative year-on-year export growth. All reporting economies continued the trend of negative year-on-year import growth, declining significantly more than in December 2019. These latest developments reveal a further deterioration in global trade conditions at the end of 2019, due to worsening trade tensions between the US and China, i.e. a continued trend in trade tensions disrupting the global supply chain, despite the mitigating element of the US-China trade agreement signed in January 2020.

In the fourth 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 robust and provided a stronger 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. Nevertheless, the EU28 unemployment rate remained around the levels observed during 2019, i.e. at to 6.5% in February 2020, which however does not yet reflect the dramatic impact of the COVID-19 outbreak. In some national labour markets, insufficient labour supply in the fourth quarter of 2019 has continued to drive a pick-up in wages, that are growing above inflation. As a result, consumers continued to benefit from real gains in disposable income, which should be supportive of private consumption growth. The dramatic deterioration of the economic situation, the ongoing rise in unemployment which is certain – albeit not yet reflected in actual data – are however expected to completely reverse the picture.

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 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) has 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, with extraordinary measures that have been announced. 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 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.

EUROFER MACROECONOMIC DATA		
	2018	2019
GDP	1.9	1.4
Private consumption	1.6	1.4
Government consumption	1.1	2.0
Investment	3.1	2.4
Investment in mach. equip.	3.9	2.1
Investment in construction	3.4	2.5
Exports	3.1	2.5
Imports	3.6	2.9
Unemployment rate (level)	7.5	7.0
Inflation	1.9	1.5
Industrial production	1.5	-1.0



First, 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) and 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 will remain depressed).

The European Commission has launched the SURE fund worth €100 billion that 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. 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 find as additional resources so as to cope with the costs of the recession. Lastly, discussion is ongoing on a so-called ‘Recovery Fund’ that was agreed in principle on 23 April and that Commission and Council are working on. This would be financed via additional resources on the EU budget and would be able to leverage up to €2 trillion on financial markets, possibly via the emission of ad-hoc common bonds.

# The EU steel market: final use

## Outlook for steel-using sectors

The manufacturing slump in the EU deepened in the second half of 2019. The automotive sector registered the second sharpest fall in production activity since the first quarter of 2013. 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.

## Construction industry

The momentum of the EU construction sector lost further speed over the fourth quarter of 2019, moving along the trend already seen in the two preceding quarters. However, the sector proved more resilient than other steel-using sectors during difficult economic times. As a result, the sector recorded its third consecutive year of strong output growth, much higher than other steel-using sectors (3.9%).

### Construction industry output

EU production activity in the construction sector rose by 1.4% year-on-year in the fourth quarter of 2019, lower than the 3.8% recorded in the third quarter. The third quarter marked the twelfth quarter in succession of expansion in the EU construction sector. The sector also remained, over this period, the best performing key steel using sector.

### Construction industry activity in the fourth quarter of 2019

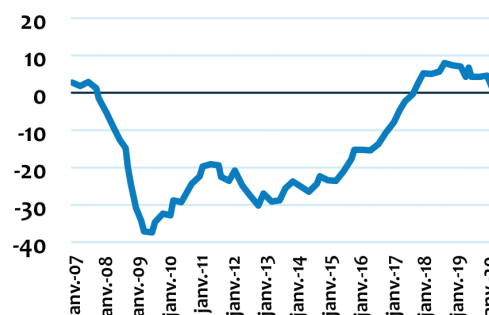
In the fourth quarter of 2019, construction output grew in all reporting countries except for Italy, the Netherlands, Poland and Slovakia (the latter at a more pronounced rate of decrease). Output growth was particularly pronounced in the Czech Republic and Hungary.

In line with actual construction production volumes, gross fixed investment in construction in the fourth quarter grew in real terms by 2.5% year-on-year, compared with 3.5% in the preceding quarter. This translated into a negligible increase of 0.2% quarter-on-quarter, which provided further evidence of the cooling-off of the sector, further to the rather strong cycle in 2017 and 2018. Looking at the performance of individual countries, as in previous quarters Eastern European countries generally recorded higher growth rates.

### Construction industry forecast 2020-21

Prospects for the EU construction sector are hugely impacted by the economic lockdown which is still ongoing at the time of writing in some Member States. It will have 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.

**EU CONSTRUCTION CONFIDENCE**  
Balance of positive and negative answers



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. However, these do not yet reflect the widespread deterioration of the economic environment and its repercussions on the sector. That construction activity at the end of 2019 was already experiencing a slowdown 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.

In any case, despite the huge disruption caused by the COVID-19 lockdown, the construction industry will continue to perform relatively better 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 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. 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 the suspension of the Stability and Growth Pact and the Fiscal Compact. Lower government debt service costs, given ECB action, should provide a very supportive role.

## 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 has 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. In the fourth quarter the year-on-year drop in output deepened compared to the preceding quarter, resulting in a drop of -8.5%, equating to a drop of 6.9% in the whole 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 led to the closure of dealerships.

### Automotive sector activity in the fourth quarter of 2019

Production activity in the EU automotive industry fell year-on-year for the sixth consecutive quarter, by -8.5% in the fourth quarter of 2019 (after -3.6% in the third quarter). Weakening demand for new passenger cars in Europe and in key export markets such as the US, China and Turkey, combined with uncertainty around WLTP and model changes had a negative impact on production activity in most EU countries. Production in Germany, Italy and especially in the UK recorded a severe contraction. Overall, output fell by -6.9% over the full year 2019.

Vehicle exports to third countries have continued to lose ground over the fourth quarter of 2019 in line with the persistent weakening of demand in key global markets. This resulted in exports of German and UK manufactured cars falling by double-digits over 2019.

### Automotive industry forecast 2020-2021

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 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 Q3 onwards normal business conditions return lockdown measures recede, it will take time before new orders will 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 at normal conditions, 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 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.

## Mechanical engineering

In line with expectations, production activity in the EU mechanical engineering sector registered negative growth in the fourth quarter of 2019 as the lack of new orders took its toll on production activity.

### Mechanical engineering activity in the fourth quarter of 2019

Production activity in the EU mechanical engineering industry fell -1.7% year-on-year in the fourth quarter of 2019 (after a drop of -1.3% in the third quarter), resulting an annual drop of -0.5% over the whole year 2019 (versus a growth of 4% in 2018). The negative impact of slowing capital investment growth in the EU, weaker international trade, slowing global economic growth, protectionist policies and continuing Brexit uncertainty continued to outweigh positive support for output growth from orders that were still in the production pipe line. As a consequence, growth in production activity continued to decline up to the fourth quarter of 2019.

The business climate in the mechanical engineering sector has 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.

### 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).

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.

### 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.

#### Steel tube industry activity in the fourth quarter of 2019

In the fourth quarter of 2019, output in the EU steel tube industry fell by -1.4%, a slightly more pronounced fall than the -0.5% recorded in the third quarter. 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 fell rather sharply. As a result, over the whole 2019 output in the tube industry recorded a marginal decrease of 0.3%.

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 in the fourth quarter of 2019. This helped mitigate 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 is over – 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; this will be particularly true for the commodity segment.

### Electrical domestic appliances industry

Production activity in the electrical domestic appliances sector dropped for the seventh consecutive quarter in the fourth quarter of 2019, with a year-on-year drop of -1.6% (after -0.3%), resulting in an annual output decrease in 2019 by -1.7%.

#### Electrical domestic appliances industry activity in the fourth quarter of 2019

Production activity in the EU's electrical domestic appliances sector fell by -1.6% year-on-year in the fourth quarter of 2019. This has further exacerbated the negative trend in production of the electrical domestic appliances sector in the EU since the third quarter of 2018.

## Total steel-using sectors output

Total production activity in EU steel-using sectors fell by 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 2019 negative growth 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).

### Total steel-using sector activity in the fourth quarter of 2019

Production activity in steel-using sectors of the EU has continued to lose momentum over the past few quarters. Since the second quarter of 2019, manufacturing output has been falling on a year-on-year trend, with the only exception being the third quarter (for which data has been revised).

In the fourth quarter of 2019, total steel-using output dropped by -1.6%, after a moderate increase of 0.4% in the third quarter.

Manufacturing activity has been dragged lower by the downturn in international trade, the automotive slump and weakening business investment as a result of the significant loss in confidence in the corporate sector due to trade disputes and Brexit-related uncertainty. 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 in the construction sector, because it is largely protected from the current negative impact of weakening dynamics in foreign trade.

Overall output in the steel-using sectors in the fourth quarter of 2019 registered negative growth in Germany, Italy, France, Spain and the UK, with zero variation in the Netherlands.

### Total steel-using sectors forecast 2020-2021

The Coronavirus outbreak and the related industrial and economic lockdown are expected to have a massive impact on steel-using sectors' output, with plant closures, capacity reduction (permanent and/or temporary) and huge supply chain disruption already in place. These are expected to continue to weigh their negative effects on industrial activity even once lockdown measures are removed, possibly around the end of the second quarter of 2020. 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 sharply 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.

YEAR-ON-YEAR % CHANGE - EU STEEL WEIGHTED INDUSTRIAL PRODUCTION (SWIP) INDEX						
	% Share in total Consumption	Year 2019	Q1'19	Q2'19	Q3'19	Q4'19
Construction	35	3.9	6.3	4.4	3.8	1.4
Mechanical engineering	14	-0.5	1.3	-0.4	-1.3	-1.7
Automotive	18	-6.9	-6.3	-8.9	-3.6	-8.5
Domestic appliances	3	-1.7	-2.3	-2.4	-0.3	-1.6
Other Transport	2	6.6	8.7	4.1	7.5	5.9
Tubes	13	-0.3	0.1	0.4	-0.5	-1.4
Metal goods	14	-1.2	0.9	-1.3	-2.2	-2.1
Miscellaneous	2	-0.8	0.7	-1.4	-0.6	-1.7
TOTAL	100	-0.2	1.2	-0.5	0.4	-1.6

## Real steel consumption

Real steel consumption fell by 7.7% year-on-year in the fourth quarter of 2019 and stood at 37.6 million tonnes, resulting in an annual drop of -2.6% in the whole year 2019.

### Real steel consumption in the fourth quarter of 2019

The continued slowdown in production activity of steel-using sectors, coupled with reduced steel intensity, led to a fall of 7.7% year-on-year in real steel consumption in the fourth quarter of 2019. This was the third consecutive year-on-year drop (-2% in the third quarter).

Due to the continued economic slowdown over the second half of 2019 and widespread business uncertainty, steel intensity – the ratio of steel consumption to steel-weighted production in steel using industries – has continued to decrease, reflecting the fact that during economic downturns steel using industries tend to reduce the steel content in their final output unit.

REAL CONSUMPTION - % CHANGE YEAR-ON-YEAR						
Period	Year 2018	Q1'19	Q2'19	Q3'19	Q4'19	Year 2019
% change	1.7	0.4	-0.9	-2.0	-7.7	-2.6

# The EU steel market: supply

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

## Apparent steel consumption

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

### Apparent steel consumption in the fourth quarter of 2019

EU28 apparent steel consumption fell by 10.8% year-on-year in the fourth quarter of 2019 – the fourth consecutive fall and the sharpest quarterly drop since the third quarter of 2012 – and amounted to 34.1 million tonnes. 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. Having said this, the second half of each year often sees considerable seasonal de-stocking.

As a result, apparent consumption in the EU fell by 5.3% over the entire year 2019 (against the previous forecast of -3.1% in January) compared to 2018, when apparent consumption increased year-on-year by 2.6%.

### EU domestic and foreign supply

Imports of steel products from third countries into the EU market – including semi-finished products – decreased markedly over the fourth quarter as a result of the safeguard measures applied by the EU, resulting in a year-on-year drop of 24%, much more pronounced than the -1.1% recorded in the third quarter. In the full year 2019, imports from third countries decreased by 11.5%, against an increase of 12% in 2018. However, this yearly reduction conceals very high volatility in imports which can be seen when looking at monthly data. 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.

Meanwhile, domestic deliveries by EU steel suppliers fell by 8% year-on-year in the fourth quarter of 2019, an even stronger reduction than recorded in the third quarter of the year, i.e. -4%. Over 2019, deliveries fell by -4.1% compared to 2018, when they had increased in yearly terms by 1.2%. Business conditions in the EU steel market have become increasingly difficult as price pressure stemming from still high levels of imports has intensified amid wildly fluctuating monthly imports, falling steel demand and destocking.

#### EU APPARENT STEEL CONSUMPTION - IN MILLION TONNES PER YEAR

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Million tonnes	148	158	141	141	146	152	156	158	162	154

#### EU APPARENT STEEL CONSUMPTION - % CHANGE YEAR-ON-YEAR

Period	Year 2018	Q1'19	Q2'19	Q3'19	Q4'19	Year 2019
% change	2.6	-0.8	-6.8	-3.0	-10.8	-5.3



## Imports

Total imports of steel products into the EU28 – including semi-finished products – fell by a pronounced 24% in the fourth quarter of 2019. In the whole year 2019, imports from third countries have decreased by 11.5%, against an increase of 12% in 2018. Throughout the year 2019, monthly data has shown increasing volatility, which has nevertheless eased considerably after an exceptional peak in August.

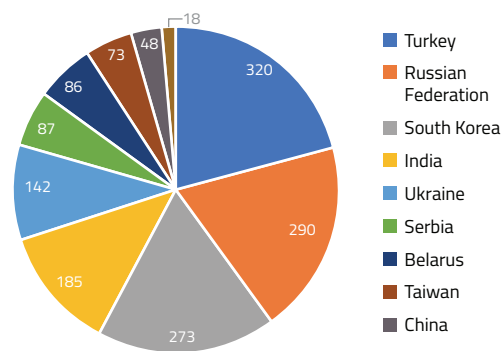
In February 2020, which is the latest monthly data available at the time of publication, finished product imports fell by 27% year-on-year due to a 20% year-on-year drop in flat product imports and a 44% reduction in long product imports.

### Imports by country of origin

According to February 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 67% of total finished steel imports into the EU. These latest monthly data signal a considerable repositioning of major steel exporters as China, for example, went from 201 monthly metric tonnes on average in 2019 to 48 monthly metric tonnes in February this year. Equally, imports from Turkey decreased – albeit less dramatically – from an average 485 monthly metric tonnes in 2019 to 320 monthly metric tonnes in February 2020.

Despite slowing exports to the EU, Turkey remained the largest exporter of finished steel products to the EU, accounting for 18% of total EU finished steel imports, followed by the Russian Federation with 16% and South Korea with 15%. In February 2020, imports from Turkey have decreased by 57%, imports from China by 84% and imports from Russia by 11%.

**EU FINISHED STEEL PRODUCT IMPORTS BY COUNTRY OF ORIGIN**  
February 2020, Monthly '000 metric tonnes



### Imports by product category

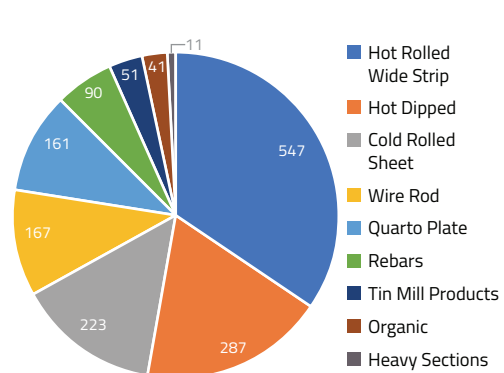
The decline in EU imports of finished steel products that had followed a substantial increase during 2018 continued throughout 2019, despite some volatility, up to February 2020.

Customs data show that flat product imports dropped by 21% year-on-year over the fourth quarter of 2019. This was the third consecutive drop (it was -7% in the third quarter). Meanwhile, long product imports fell by 35% on a yearly basis in the fourth quarter of 2019, further to an increase of 28% already recorded in the third quarter. The share of long products out of total finished steel product imports was 23%. Over the whole year 2019, imports of finished flat products from third countries fell by 10% compared to the previous year.

Within the flat product market segment, imports of organic coated sheet imports fell by 10% over year 2019, while hot-rolled wide strip fell by -9%, and imports of hot-dipped galvanised sheet dropped by -12%. Falls in imports of quarto plate products were more pronounced at -15%.

All long product imports were significantly lower in the whole 2019 than in 2018, i.e. by 22%. The sharpest falls were recorded for wire rod, merchant bars and heavy sections with -26%, -24% and 23% respectively.

**EU FINISHED STEEL IMPORTS BY PRODUCT**  
February 2020, '000 metric tonnes



## Exports

Total EU exports of steel products to third countries increased by 0.5% year-on-year in the fourth quarter of 2019, further to a meagre rise of 0.2% recorded in the third quarter. However, these data resulted in a fall of -1.5% over the entire year 2019 compared to the previous year (but against a drop of -10.5% recorded in 2018). Monthly data signalled considerable fluctuations over July and August 2019.

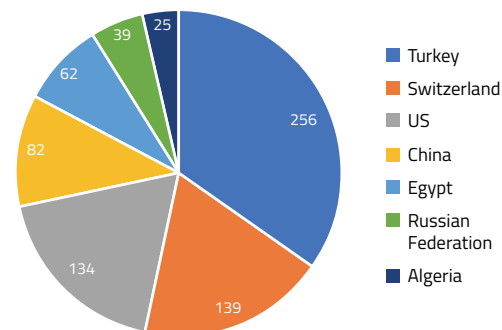
Underlying trends at the product group level show that exports of flat products rose by 5% year-on-year in the whole 2019 whereas long product exports fell by -9% year-on-year. In February 2020, this trend changed, resulting in a decrease in exports of flat products of 5% and of 21% for long products. As a result, in the same month exports of finished steel products dropped by 11%.

### 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 in the year 2019. This trend has continued up to the latest monthly data available (February 2020), when the above five countries together accounted for 42% of total EU finished product exports over this period. In February 2020, export to Turkey increased by +14% year-on-year (by 22% in 2019), to Russia by +18% (+11% in 2019), to China by +16% (against -18% in 2019). By contrast, exports to the US recorded a sharp decrease (-48%). Exports to Switzerland also dropped, but much less significantly (-9%).

### EU FINISHED STEEL EXPORTS BY DESTINATION

February 2020, Monthly '000 metric tonnes



### Exports by product category

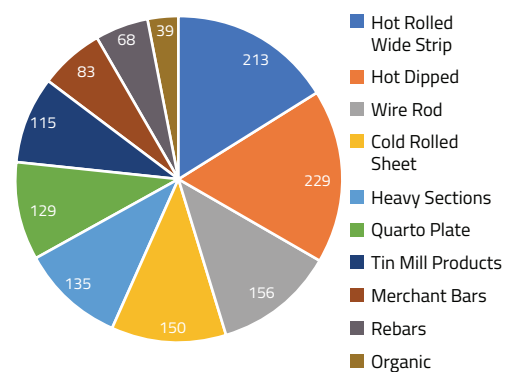
In February 2020, flat product exports accounted for 66% of total exports and long product exports accounted for the remaining 34%.

Exports of flat products recorded a decrease of -5% (versus an increase of 5% in the whole year 2019), and exports of long products decreased by -21% (further to a decline of -9% in the year 2019).

Broadly speaking, flat product exports performed relatively better than exports of long products, but could not prevent total exports from falling by 11% in February 2020. Within the flat product segment, exports of hot-rolled wide strip decreased considerably, while strip mill and tin mill products recorded moderate decreases. Quarto plate and cold-rolled sheet exports rose slightly, while exports of hot-dipped metal coated sheets recorded a more robust increase.

### EU FINISHED STEEL EXPORTS BY PRODUCT

February 2020, '000 metric tonnes



Among long products, exports of rebar and wire rod dropped significantly, while merchant bars fell only slightly. By contrast, exports of heavy sections were considerably higher than the same period of the previous year.

### Trade balance

EU's total steel product trade deficit amounted to 1.06 million tonnes per month over the entire year 2019. There was a trade surplus in long products thanks to a considerable surplus in heavy sections. In the fourth quarter

of 2019, trade deficit of total steel products amounted to 576 kilotonnes. In detail, there was a deficit of 228 kilotonnes in flat products and a surplus of 170 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 233 kilotonnes per month, followed by Russia with 202 kilotonnes and Turkey with 160 kilotonnes. The major destination countries for EU finished steel exports with a trade surplus over the year 2019 remained the US, Switzerland and Algeria.

It is however 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 improvements in their design, but it 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 deteriorate. 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
- 27 \_\_\_\_\_ Manufacture of electric motors, generators, transformers and electricity distribution and control apparatus excluding 27.1 and 27.5

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## EU steel market definitions

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

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

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

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

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

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

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

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

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

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## **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

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## **About the European steel industry**

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

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

Steel is the most versatile industrial material in the world. The thousands of different grades and types of steel developed by the industry make the modern world possible. Steel is 100% recyclable and therefore is a fundamental part of the circular economy. As a basic engineering material, steel is also an essential factor in the development and deployment of innovative, CO<sub>2</sub>-mitigating technologies, improving resource efficiency and fostering sustainable development in Europe.



**EUROFER**  
The European Steel Association

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