

ECONOMIC REPORT

Economic and steel market outlook 2021-2022

Fourth quarter 2021 report

Data up to, and including, second quarter 2021

October 2021

EUROFER
THE EUROPEAN STEEL ASSOCIATION

Introduction

The positive trend seen in apparent steel consumption as well as in steel-using sectoral output continued over the second quarter of 2021, at a considerably higher pace than in the first quarter of 2021. This was driven by the ongoing recovery in demand from the industry sector, where output bounced back after the losses experienced during the pandemic. At the same time, this is also due – and to a larger extent – to the comparison with the very low output levels seen one year earlier. The second quarter of 2020 saw widespread lockdowns and stoppages to industrial activity that were implemented across the EU as a result of the outbreak of the Covid-19 pandemic.

However, the general economic and industrial recovery in the EU appears to be increasingly uneven and exposed to downside risks, mainly the ongoing, severe disruptions in the global supply chain (i.e. shortage of components and raw materials, skyrocketing energy prices, rising shipping costs, etc.), as well as the sluggish implementation of vaccination plans in some Member States and COVID-19 variants. Recovery in steel-using industries and in steel demand is expected to continue through 2021 but at a moderate rate and subject to considerable uncertainty at least until the first quarter of 2022, when most of the current global supply chain disruptions are expected to disappear or to ease significantly.

EU steel market overview

In the second quarter of 2021, EU apparent steel consumption increased for the third consecutive time in a row at an exceptional rate (+40.5%). This data is best explained against the backdrop of extremely low consumption levels seen one year before, due to the severe disruptions caused by the COVID-19 pandemic that had marked the trough of the cycle. Apparent steel consumption in the second quarter of 2021 amounted to 40 million tonnes, compared to 36,3 million tonnes in the first.

The whole of 2020 was considerably impacted by the pandemic and saw apparent steel consumption in the EU plummet (-10,6%, revised upwards from -11.1% in the previous Outlook) for the second consecutive year after a -5.2% drop in 2019. Steel consumption is set to rebound (+13%, revised upwards from +11.2%) in 2021 and to grow more moderately (+4.7%) in 2022, when it is expected to return to above 2017 levels thanks to mild but continued improvement in demand from steel-using sectors. Nonetheless, the outlook is becoming increasingly uncertain due in particular to disruptions in the global supply chain which are likely to seriously impact demand from steel-using sectors.

Mirroring the continued improvement in demand, domestic deliveries also recorded exceptional growth in volumes over the second quarter of 2021 (+39.6%). Positive developments were also observed in the first quarter of 2021, albeit at a much lower rate (+1%), already reflecting the improvement in demand within the EU. Over the entire 2020, deliveries fell (-9.6%) compared to 2019, marking the second consecutive decline year-on-year after 2019 (-4.2%).

Imports – including semi-finished products – into the EU were impacted by poor steel demand due to the outbreak of the pandemic up to the first quarter of 2021 (-2.5%), but surged dramatically over the second quarter as a result of a stronger improvement in demand. This resulted in an increase of +45% over the second quarter (+48% for finished products). These high figures, however, are strongly linked to the comparison with the exceptionally low figures seen in the second quarter of 2020.

In 2020 imports from third countries fell (-17.2%) for the second consecutive year after 2019 (-10.9%), reflecting the continued deterioration in steel demand.

EU steel-using sectors

Steel-using industries in the EU have been experiencing a strong rebound in output since the loosening

of lockdown measures over the third quarter of 2020. The second quarter of 2020 had marked the trough of the Covid-led shock resulting in an unprecedented quarterly fall in production (-25.4%). Considerable rebounds followed, compared to the record lows seen since the third quarter of 2020 up to the second quarter of 2021. Driven by a faster-than-expected output recovery in some sectors (domestic appliances and automotive in particular), they have allowed to recover the losses experienced due to the pandemic.

In the second quarter of 2021 steel-using sectors' output grew at an exceptionally high rate (+29.2%), scoring the second increase in a row after the first quarter (+2.8%). Growth was fuelled by the continued recovery of the sectors but also reflected the comparison with the record lows seen in the second quarter of 2020.

However, considerable problems in the global supply chain experienced since July 2021 in particular those affecting the automotive sector (rising transportation and fuel costs, shortage of components, etc.), are expected to impact steel using sectors' output in a substantial way. This situation is jeopardising the recovery and casts uncertainty on the overall steel-using industries outlook, at least until the first quarter of 2022.

Table of contents

	Economic and steel market outlook 2021-2022
<u>2</u>	Introduction
<u>2</u>	EU steel market overview
<u>2</u>	EU steel-using sectors
<u>4</u>	Table of contents
<u>5</u>	The EU steel market: supply
<u>5</u>	Real steel consumption
<u>6</u>	Apparent steel consumption
<u>7</u>	Imports
<u>8</u>	Exports
<u>10</u>	The EU steel market: final use
<u>10</u>	Outlook for steel-using sectors
<u>11</u>	Construction industry
<u>12</u>	Automotive industry
<u>13</u>	Mechanical engineering
<u>13</u>	Steel tube industry
<u>14</u>	Electrical domestic appliances industry
<u>17</u>	EU Economic outlook 2020-2021
<u>16</u>	GDP growth
<u>17</u>	Confidence indicators
<u>18</u>	Economic fundamentals
<u>20</u>	Glossary of terms
<u>21</u>	EU steel market definitions
<u>22</u>	About the European Steel Association (EUROFER)
<u>22</u>	About the European steel industry

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.

Real steel consumption

Definition

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.

Real steel consumption in the second quarter of 2021

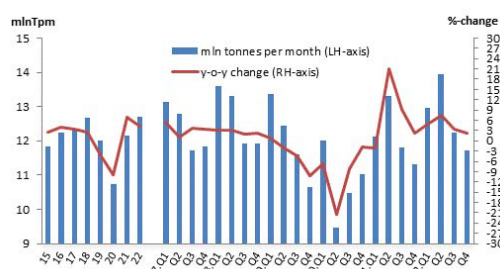
In the second quarter of 2021 real steel consumption jumped by +21% year-on-year, reversing the trend for the first time after eight consecutive quarterly drops (-2.1% in the first quarter). This exceptional increase must be interpreted keeping in mind the very low figures seen over the second quarter of 2020.

In 2020 real steel consumption declined for the second consecutive year (-9.8%, after -4% in 2019).

It is expected to recover in 2021 (+7%, revised downward from +7.9% in the previous Outlook) and, at a more moderate pace, in 2022 (+4.4%).

The two consecutive annual recessions of 2019 and 2020 were caused by the considerable slowdown in the activity of steel-using sectors (due to manufacturing and trade downturns) and to the COVID crisis and related effects, respectively. A counter-cyclical destocking trend from late 2019 continued throughout 2020. Normally, stocks increase in the first half of the year, but the opposite occurred in 2020. This pronounced destocking process was over at the end of 2020, reflecting better expectations for steel demand over the next quarters.

EU REAL STEEL CONSUMPTION
Forecast from Q3-2021



FORECAST FOR EU REAL STEEL CONSUMPTION - % CHANGE YEAR-ON-YEAR

Period	Year 2020	Q1'21	Q2'21	Q3'21	Q4'21	Year 2021	Q1'22	Q2'22	Q3'22	Q4'22	Year 2022
% change	-9.8	-2.1	21.0	9.1	2.3	7.0	4.7	7.3	3.4	2.2	4.4

Apparent steel consumption

Definition

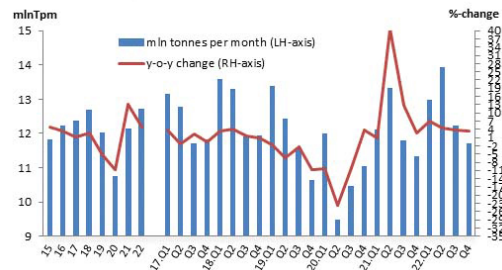
Apparent consumption is also referred to as 'steel demand'. It is total deliveries of all steel products and qualities by EU producers plus imports less 'receipts' into the EU, minus exports to third countries.

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.

EU APPARENT STEEL CONSUMPTION

Forecast from Q3-2021



Apparent steel consumption in the second quarter of 2021

The positive trend seen in apparent steel consumption in the first quarter of 2021 continued over the second quarter, thanks to the ongoing rebound in industry and steel demand. Despite continued, severe bottlenecks in the global supply chain, an exceptional growth (+40.5% year-on-year) was recorded, after +0.8% in the first quarter. This one-off percentage is to be read in the context of the historical lows seen one year earlier at the most critical moment of the pandemic in the EU when industrial activity was idled. Total volumes in the first quarter of 2021 were 40 million tonnes, still below the pre-pandemic levels of the first quarter of 2019.

Due to the outbreak of the pandemic, there had been exceptional quarterly falls in apparent steel consumption in the second quarter (-23.8%), followed by another fall, albeit milder, in the third quarter (-9.9%) despite the loosening of lockdown constraints. The fourth quarter already recorded an increase in apparent consumption (+3.6%), the first since the fourth quarter of 2018.

The whole year 2020 was considerably impacted by the pandemic and saw apparent steel consumption in the EU plummet (-10.6%, revised upwards from -11.1% in the previous Outlook) for the second consecutive year after the slump (-5.2%) in 2019. In 2021 it is set to rebound (+13%, revised upwards from +11.2%) and grow more moderately (+4.7%) in 2022, when it is expected to return to above 2017 levels thanks to moderate but continued improvement in demand from steel-using sectors. However, the outlook is becoming increasingly uncertain due to risks on the downside, in particular related to disruptions in the global supply chain which are likely to seriously impact demand from steel-using sectors.

EU domestic and foreign supply

Domestic deliveries also recorded exceptional growth in volumes over the second quarter of 2021 (+39.6%). Positive developments were observed as well in the first quarter of 2021, albeit at a much lower rate (+1%), already reflecting an improvement in demand within the EU. Over the entire 2020, deliveries sharply decreased (-9.6%) compared to 2019, marking the second consecutive decline in yearly terms after 2019 (-4.2%).

Imports – including semi-finished products – into the EU were impacted by poor steel demand due to the outbreak of the pandemic up to the first quarter of 2021 (-2.5%), but surged dramatically over the second quarter as a result of stronger improvement in demand. This resulted in an increase of +45% over the second quarter (+48% for finished products). These high figures, however, strongly reflect the comparison with the exceptionally low figures of the year before.

In 2020 imports from third countries fell (-17.2%) for the second consecutive year (-10.9%), reflecting the continued deterioration in steel demand.

The EU steel market: supply

EU APPARENT STEEL CONSUMPTION - IN MILLION TONNES PER YEAR

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021 (f)	2022 (f)
Million tonnes	132	136	142	147	148	152	144	129	146	153

FORECAST FOR EU APPARENT STEEL CONSUMPTION - % CHANGE YEAR-ON-YEAR

Period	Year 2020	Q1'21	Q2'21	Q3'21	Q4'21	Year 2021	Q1'22	Q2'22	Q3'22	Q4'22	Year 2022
% change	-10.6	0.8	40.5	12.8	2.7	13.0	4.5	4.8	3.6	1.7	4.7

Imports

Total imports of finished products into the EU rose considerably over the second quarter of 2021 (+48% year-on-year), mirroring improved demand across the EU but also partially reflecting the record-low levels of the second quarter of 2020.

In the first seven months of 2021, imports of finished products rose by +32%, imports of flat products by +35% and imports of long products by +23%.

In 2020 total imports from third countries (including also semis) decreased (-17%), following the downward trend of 2019 (-11%). Similarly, imports of finished products sharply dropped (-15%).

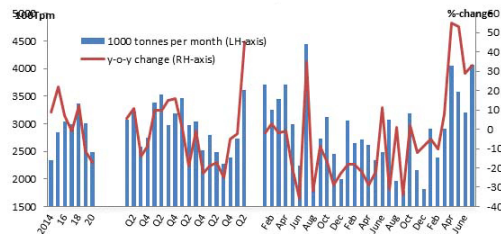
Imports of flat products over the second quarter of 2021 rose by +49% year-on-year, keeping up with the positive trend started in the first quarter (+1%). In 2020, they had recorded a downturn (-15%) compared to 2019. Imports of long products increased by +42% in the second quarter of 2021 (+4% in the first quarter), after a slump in 2020 (-16%).

Imports were volatile across 2020 and in early 2021, continuing a trend seen in 2019. The year 2019 had already seen unusual monthly peaks, including an all-time record level of 4.4 million tonnes in August. This was followed by much lower tonnages in the subsequent months down to subdued levels in historical terms, with more stable figures and reduced volatility up to April 2020 reflecting an exceptionally weak demand. Imports surged again for some products in July 2020 and showed some volatility from September to November, down to a 12-month low in December. Imports raised considerably once more in early 2021 and particularly over the second quarter, mirroring improvement in steel demand.

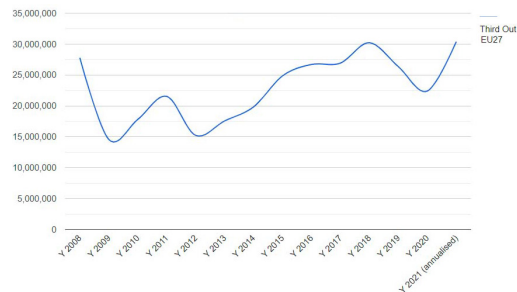
Imports by country of origin

In the first seven months of 2021, the main countries of origin for finished steel imports into the EU market were Turkey, the Russian Federation, South Korea,

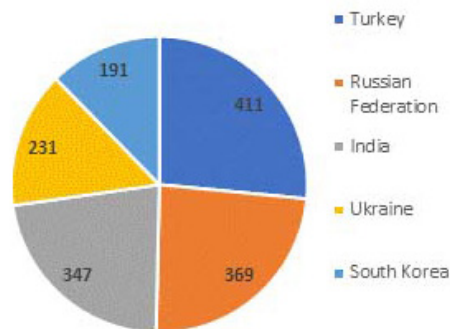
EU TOTAL STEEL IMPORTS



EU TOTAL STEEL IMPORTS - FINISHED PRODUCTS 2008-2021 (YTD - Absolute volumes)



EU FINISHED STEEL IMPORTS BY COUNTRY 7M-2021, '000 monthly metric tonnes



The EU steel market: supply

India and Ukraine. These five countries represented 59% of total EU finished steel imports. Turkey and The Russian Federation were the largest exporters of finished steel products to the EU (with a share of 15.6% and 14% respectively), followed by India (13.2%) Ukraine (8.8%) and South Korea (7.3%).

Record increases were registered in imports from India (+112%) and Ukraine (+79%), followed by Russia (+25%) and Turkey (+15%), whereas imports from South Korea fell significantly (-20%).

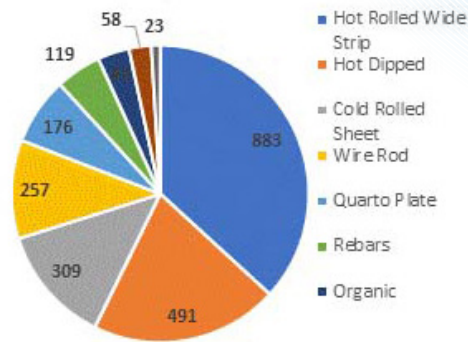
Imports by product category

Customs data show that both flat and long product imports increased (+35% and +23% respectively) in the first seven months of 2021. The share of long products out of total finished steel product imports was 21%.

Within the flat product market segment, over the first seven months of 2021 imports of all flat products rose considerably. Imports of coated sheet grew (+58%), as well as imports of hot dipped and hot-rolled wide strip (+54%). The same trend was recorded for imports of cold-rolled sheet (+24%), coated sheet (+45%), hot dipped (+53%), while imports of quarto plate expanded only marginally (+2%).

Correspondingly, all long product imports were higher in the first seven months of 2021 compared to the same period of the previous year. Imports increased for rebars +43%, wire rod (+35%) and heavy sections (+20%). Imports of merchant bars grew more moderately (+10%).

EU FINISHED STEEL IMPORTS BY PRODUCT
7M-2021, '000 monthly metric tonnes



Exports

In the second quarter of 2021 total EU exports of finished steel products to third countries increased by +9%, after -5% in the first quarter.

In particular, exports of both flat products (+6%) and long products (+15%) rose, inverting the negative trend of the first quarter (-6% and -3% respectively).

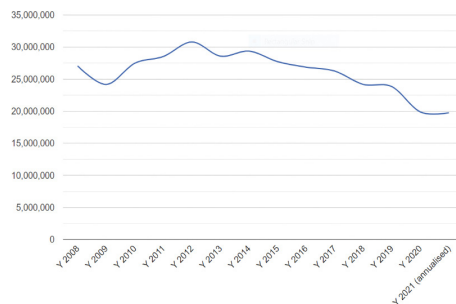
The year 2020 recorded a general slump of EU exports (-17% for finished products), reflected in all segments (flat products -17%, long products -16%).

Exports by country

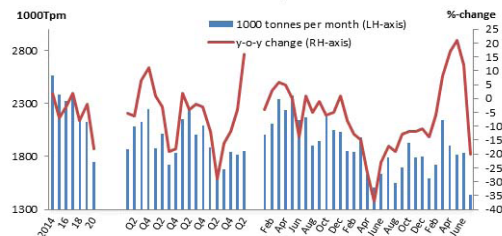
The main destinations for EU steel exports over the first seven months of 2021 were the UK, Turkey, the United States, Switzerland and China, followed by Egypt and the Russian Federation. The first five destinations together accounted for 54% of total EU finished product exports.

The most significant increases in EU exports were recorded in the US (+22%), the UK and Switzerland (both +9%), while the largest decreases were observed in China (-16%) and Turkey (-11%).

EU TOTAL STEEL EXPORTS - FINISHED PRODUCTS
2015-2021 (YTD)



EU TOTAL STEEL EXPORTS



The EU steel market: supply

Exports by product category

Over the first seven months of 2021, flat product exports fell (-5%), whereas long product exports increased moderately (+3%).

Flat products accounted for 65% of finished product exports overall.

Exports of most individual flat products decreased compared to the same period of the previous year, in particular hot rolled wide strip (-28%), hot rolled flat (-16%), quarto plate (-10%) and cold rolled sheet (-4%). Exports of strip mill products also dropped (-5%), while exports of hot dipped and coated sheet increased (by +11% and +9% respectively).

By contrast, exports of all long products rose with the exception of rebars (-31%). Exports of wire rod, merchant bars and heavy sections all increased (by +4%, +15% and +22% respectively).

Trade balance

The EU's total steel product trade deficit (finished plus semis) amounted to 1.5 million tonnes per month over the first seven months of 2021, mostly due to the pronounced rise in imports over the second quarter. This last reference period resulted in a record-high trade deficit of 1.8 million tonnes, compared to 914 kilotonnes per month in the first quarter. For finished products, the trade deficit in the first seven months of 2021 amounted to 912 kilotonnes.

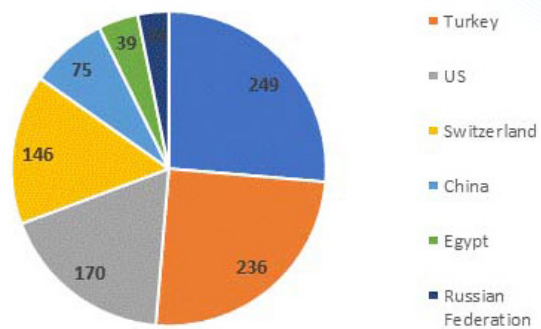
Per category, the flat segment registered a deficit of 932 kilotonnes whereas the long segment registered a surplus of 20 kilotonnes over the first seven months of 2021, while in the second quarter alone the first recorded a deficit of 1.2 million tonnes and the latter a surplus of 32 kilotonnes.

The biggest trade deficits - including semis - with individual trade partners were with Russia (746 kilotonnes), Ukraine (456 kilotonnes, a record high), India (306 kilotonnes) and Turkey (162 kilotonnes). The EU recorded moderate deficits with South Korea (177 kilotonnes) and China (24 kilotonnes).

The major destination countries for EU finished steel exports with a trade surplus over the first seven months of 2021 were the UK, the US and Switzerland.

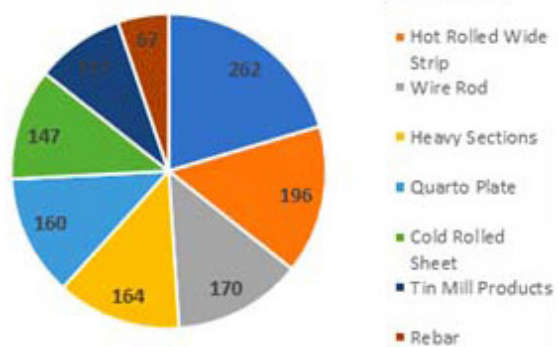
EU FINISHED STEEL PRODUCT EXPORTS BY DESTINATION

7M-2021, '000 monthly metric tonnes



EU FINISHED STEEL PRODUCT EXPORTS BY PRODUCT

7M-2021, '000 monthly metric tonnes



The EU steel market: final use

Outlook for steel-using sectors

Total steel-using sector activity in the second quarter of 2021

Despite the persisting pandemic in the first quarter of 2021, growth in steel-using sectors saw a rebound, marking the first year-on-year growth (+2.8%) since the third quarter of 2019. This trend has continued over the second quarter, with the industrial recovery gaining momentum. As a result, steel-using sectors' output achieved a spectacular – albeit one-off – growth rate of 29.2%, mostly due to the comparison with the very low output levels recorded one year earlier.

For this reason, output in the steel-using sectors in the second quarter of 2021 recorded positive growth in all European countries, particularly in France, Italy, Spain, Austria and Hungary.

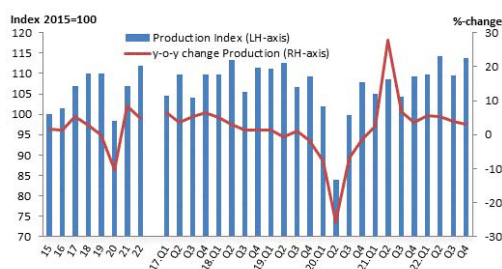
By contrast, in 2020 total production activity in steel-using sectors fell by -10.4%, due to the sharp slump in steel-using industrial output in the second quarter (-25.4%) linked to industrial stoppages caused by the COVID pandemic.

Total steel-using sectors forecast 2021-2022

Total steel-using sectors output is expected to rebound in 2021 (+8.5%, revised downwards from +9.3% in the previous Outlook) and will grow more moderately in 2022 (+4.7%), after the severe drop (-10.4%) experienced in 2020 due to very low output levels.

EU STEEL USING SECTORS

Production Activity - forecast from Q3-2021



YEAR-ON-YEAR % CHANGE - EU STEEL WEIGHTED INDUSTRIAL PRODUCTION (SWIP) INDEX

	% Share in total Consumption	Year 2020	Q1'21	Q2'21	Q3'21	Q4'21	Year 2021	Q1'22	Q2'22	Q3'22	Q4'22	Year 2022
Construction	35	-4.5	2.6	18.6	3.6	2.1	6.4	6.7	5.2	2.9	2.1	4.2
Mechanical engineering	14	-11.2	6.1	26.8	9.4	2.9	10.7	3.7	2.1	3.5	2.2	2.8
Automotive	18	-21.2	0.8	70.5	-4.9	-9.5	9.0	4.6	17.7	15.9	10.9	12.1
Domestic appliances	3	-2.8	16.2	40.5	4.2	5.9	15.0	0.9	2.2	2.5	0.3	1.4
Other Transport	2	-10.6	-10.8	17.4	-1.0	2.7	1.0	3.0	4.4	5.1	4.6	4.3
Tubes	13	-14.0	3.4	30.7	9.9	8.8	12.5	9.0	1.8	-1.0	-0.4	2.3
Metal goods	14	-8.9	5.7	33.2	8.6	2.6	11.5	2.4	3.2	3.3	3.0	3.0
Miscellaneous	2	-8.1	0.3	22.5	7.6	2.8	7.7	2.8	2.4	2.6	2.7	2.6
TOTAL	100	-10.4	2.8	29.2	4.6	1.3	8.5	4.6	5.3	4.9	4.1	4.7

Construction industry

Construction industry activity in the second quarter of 2021

In the second quarter of 2021, following positive developments in the first quarter (+2.6%), output in the construction sector saw a considerable rebound (+18.6%) linked to the very low output figures of one year earlier due to the pandemic.

The figures for the first two quarters of 2021 reflect the continued quarter-on-quarter improvement in the construction activity and – more generally – the restart in economic activity across the EU.

In line with actual production volumes, gross fixed investment in construction in the second quarter of 2021 grew by +16.5% on a yearly basis.

An expansionary trend was recorded already in the first quarter (+2.7%), after four consecutive quarterly drops caused by deteriorating conditions over the course of 2020. Growth in the second quarter of 2021 was fuelled by residential investment (+17.9%), boosted by mortgage rates at record lows and housing supporting schemes in place in many Member States. Positive developments were seen also in ‘other construction’ investment (+15.2%), in particular in civil engineering used by governments as a cyclical tool to support the economic recovery.

Construction activity fell in 2020 (-4.5%), after increasing (+2.5%) in 2019.

Construction industry analysis forecast for 2021-22

Construction output is expected to rebound in 2021 (+6.4%, revised from +5.5% in the previous Outlook) and in 2022 (+4.2%).

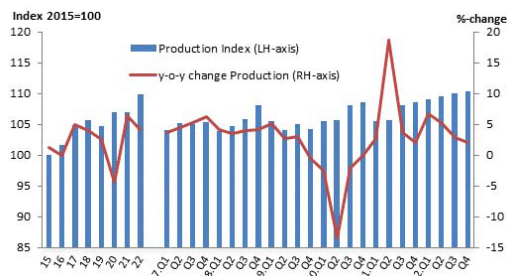
The EU construction confidence took a sharp hit in March 2020, falling to 2015 levels. The indicator, however, has been gradually improving since the third quarter, albeit remaining below 2018 levels. Residential construction was impacted by stoppages caused by lockdown measures, but in 2021-2022 conditions will remain broadly supportive due to slight improvements in economic conditions and incomes and in particular to governmental housing supporting schemes. There is already a widespread dichotomy between the upper-segment housing market, which is boosted by higher demand of better homes due to tele-working, and the lower-income segment.

Non-residential construction has paid the highest toll to the pandemic with increasing vacancy rates, a trend that may continue if tele-working remains common in the post-pandemic scenario.

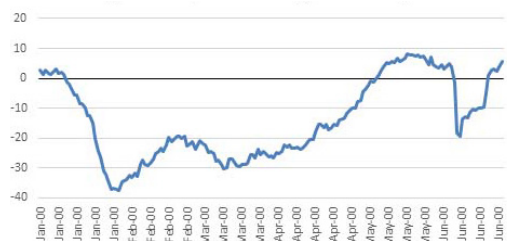
Civil engineering is expected to boost the construction sector’s performance, thanks to public investment in infrastructure as a counter-cyclical tool to redress economic downturns. This segment will also be supported by EU-wide public policies (NextGenerationEU, etc.). Their effects are expected to be seen in 2022 and, to a limited extent, already during 2021.

The current global supply chain issues, however, have also started impacting the construction sector particularly in terms of shortages of materials. This may have repercussions on the outlook for the sector over the next months.

EU CONSTRUCTION SECTOR
Production Activity - forecast from Q3-2021



EU CONSTRUCTION CONFIDENCE INDICATOR
Balance of positive and negative answers



Automotive industry

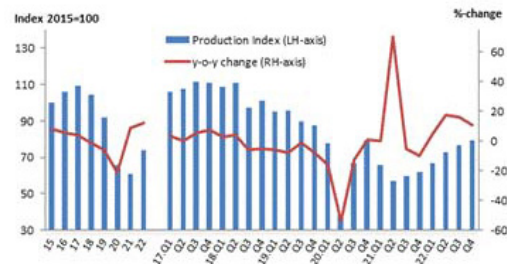
Automotive activity in the second quarter of 2021

Over the second quarter of 2021 output in the automotive sector increased year-on-year by an exceptional 70.5%, almost entirely due to the comparison with the record lows (-52.4%) of the second quarter of 2020 when industrial production was idled because of the pandemic.

Since the third quarter of 2020, the sector has seen a faster-than-expected rebound, thanks also to the rebound in external demand, resulting in increases in output year-on-year in the fourth quarter of 2020 and the first quarter of 2021 (of +0.8%).

EU AUTOMOTIVE SECTOR

Production Activity - forecast from Q3-2021



EU passenger car and commercial vehicle demand

Ongoing disruptions on the supply side, as well as hikes in energy prices and shipping costs at global level, have been curbing output growth considerably. They have also contributed to continued depressed demand and consumer uncertainty. The latest car passenger registration data in September 2021 recorded the most severe slump since 1995 (-23% year-on-year). Also commercial vehicle registrations dropped, (- 5.4% year-on-year in August). This major decrease in sales is largely caused by a lack of supply of vehicles due to the ongoing semiconductor shortage. On the other hand, over the first nine months of 2021 the number of passenger car registrations increased overall by +7% compared with the same period of 2020.

In annual terms, automotive output fell (-21.2%) in 2020 following the same negative trend of 2019 (-5.9%). The EU automotive sector had already experienced its worst slump during the euro area crisis of 2009-2012, when the recession was even bigger (-26.3%). Nonetheless, the automotive sector in 2020 has been hardest hit compared to all other steel-using sectors. Its output has been on a downward path since the third quarter of 2018: sluggish domestic and export demand, trade-related uncertainties, emissions rules, shifting patterns in ownership and model ranges had been felt all over 2019 before the onset of the pandemic.

Automotive industry forecast 2021-2022

After a severe slump (-21.2%, revised downwards from -20% in the previous Outlook) in 2020 due to the pandemic, automotive output is set to rebound (+9%) in 2021 and more pronouncedly (+ 12.1%) in 2022.

The ongoing disruptions in the supply chain have continued to affect the automotive industry in the first half of 2021 and are expected to persist up to the first quarter of 2022. The rebound underway since the third quarter of 2020 has led to sharp quarter-on-quarter rises in output, but still around historically low levels. General economic uncertainty across the EU during the ongoing pandemic and subdued consumer confidence, due to poor disposable income developments, have continued to impact car demand from consumers. The manufacturing cycle began to rise again over the fourth quarter of 2020 and up to the second quarter of 2021, but uncertainty factors have been weighing on the fragile industrial recovery, which appears to be already losing momentum.

Even assuming that from the second half of 2022 onwards the current supply chain issues will disappear, it will take time before pre-pandemic activity levels will resume. Another source of uncertainty is the consumer demand for new cars, which is expected to remain weak at least until the macroeconomic picture and consumer disposable income substantially improve.

In 2022, assuming normal levels of production and an end to WLTP distortions, the launch of new models - of which many hybrid or fully electric - could be a supportive factor, combined with some improvement in real wages and labour market dynamics on the demand side. Full recovery in global trade and external demand from major markets such as the US, China and Turkey will remain a key factor for EU car exporters.

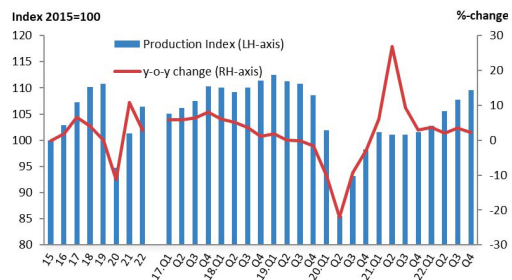
Political commitment (Fit for 55, etc.) at EU level towards the full adoption of EV by 2035 (and the subsequent ban of petrol cars) is not expected to impact consumer choices in the short-term, despite the fact that general car demand appears to be dependent on fragile consumer confidence throughout 2021 and up to the first quarter of 2022.

Mechanical engineering

Mechanical engineering activity in the second quarter of 2021

Output in the mechanical engineering sector increased by +26.8% year-on-year over the second quarter of 2021, as a result of the comparison with the trough registered during the pandemic. The rebound recorded since the third quarter of 2020 has led to sharp quarter-on-quarter improvements, but activity had remained well below pre-downturn historical output levels. Positive growth has been recorded in the first quarter of 2021 (+6.1%) for the first time since the second quarter of 2019, when output in mechanical engineering had started its decrease due to the continued downturn in manufacturing.

EU MECHANICAL ENGINEERING
Production Activity - forecast from Q3-2021



Recovery in orders and output is underway, but remains fragile and exposed to risks. Among these, the general uncertainty of the economic recovery in the EU, as long as the COVID-19 threat is not over, and the ongoing global supply chain issues which are hampering industrial activity in the EU as well as in other world economies.

Mechanical engineering forecast 2021-2022

After a sharp fall (-11,2%) in 2020 following flat growth in 2019, mechanical engineering output is set to rebound (+10.7%) in 2021 and, at a much more moderate pace, (+2.8%) in 2022. Despite the heavy toll of the pandemic in 2020, manufacturing has bounced back quickly - albeit at historically low levels of output - due to the relatively strong reliance of the mechanical engineering sector in the EU on export markets, the investment climate and global trade recovery. The latter appeared to be stronger than expected over the second half of 2020, as main export destination countries such as the US and China almost returned to a full-speed growth. However, slowdowns in industrial activity and other indicators have been showing a quick turn in the cycle since August 2021, suggesting that the momentum is probably over. The combined effect of the pandemic's persistence and issues affecting the global supply chain - which are not expected to disappear before the first quarter of 2022 -, have been weakening the demand in key domestic markets in the EU. In addition, persisting trade frictions and economic uncertainty in general may continue to put the brake on investment decisions at least until the second half of 2021.

Steel tube industry

Steel tube industry activity in the second quarter of 2021

Over the second quarter of 2021 output in the tube sector increased by an exceptional +30.7% year-on-year, mostly due to the comparison with the very low output volumes recorded one year before. After a series of six quarterly decreases in a row, the negative trend started reversing already in the first quarter of 2021, with a growth of +3.4%.

Production activity in the EU steel tube industry has become increasingly aligned with downstream sectors such as construction, automotive, metal goods and mechanical engineering. Nonetheless, the tube industry had proven relatively resilient during 2019, showing more moderate decreases in output compared to other steel-using sectors. This can be partly explained by the links with the construction sector in the EU, which had a positive impact on demand for steel tubes at least up to the first quarter of 2020. The trend ended with the pandemic, which impacted also the construction sector.

Steel tube industry forecast 2021-2022

A rebound in steel tube output (+12.5%, revised upwards from +9.8% in the previous Outlook) is expected for 2021, followed by more moderate growth (+2.3%) in 2022. Steel tube output fell for the third consecutive year in 2020, at a much faster rate than in 2019 (-14% vs -0.3%).

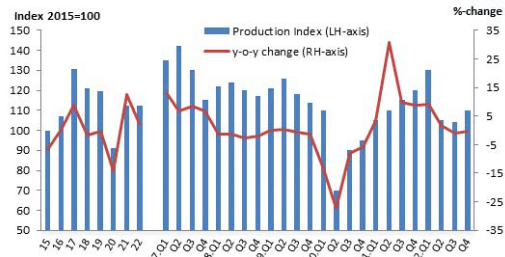
During 2020 output in the EU steel tube industry was heavily impacted by the industrial stoppages due to the COVID-19 outbreak.

Likewise for other steel-using sectors, a rebound is expected in 2021. Demand for large welded tubes from the oil and gas sector is predicted to improve – due to better prospects for oil and gas demand, also reflected by the recent spikes in energy prices – driven by the strong economic recovery in some energy-consuming world regions.

Most important regional projects from which EU-based large welded tube producers could benefit had been put on hold, and little progress was made over the past few months in solving the political and commercial issues hampering the completion of some specific pipeline projects.

The recent recovery of global oil demand (including oil prices, although struggling to rise to levels comparable to other commodities) is expected to produce some positive effects on output from the third quarter of 2021, provided that the economic scenario doesn't deteriorate further. Demand from the construction sector is set to recover. On the contrary, tube demand from the automotive and engineering sectors is forecast to remain less strong, even if they restore their production activity to high historical levels and critical supply chain disruptions are ultimately resolved. In addition, import pressure on steel tube markets in the EU will remain high, particularly for the commodity segment. In any case, the recovery in the tube sector's output is anticipated to continue at every quarter during 2021.

EU STEEL TUBE SECTOR
Production Activity - forecast from Q3-2021

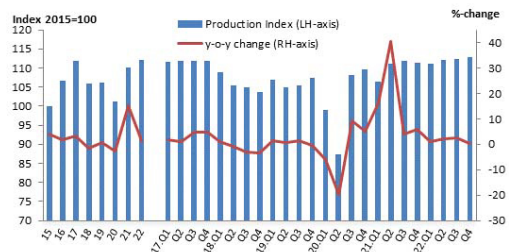


Electrical domestic appliances industry

Electrical domestic appliances industry activity in the second quarter of 2021

Over the second quarter of 2021 output in the electrical domestic appliances sector rose by 40.5%, an exceptionally high rate largely explained by the comparison with the low volumes observed in the second quarter of 2020 due to the pandemic. Nonetheless, this is the only steel using sector recording four consecutive quarters of expansion: production activity already recorded year-on-year growth in the first quarter of 2021 (+16.2%), further to growth in the third and the fourth quarter of 2020. These positive developments reflected a bigger-than-expected recovery in output after the removal of lockdown measures and widespread remote working across the EU, which has likely boosted demand for home appliances and other related goods. However, on a yearly basis, output fell (-2.8%) in 2020 for the second consecutive time after 2019 (-0.8%).

EU ELECTRICAL DOMESTIC APPLIANCES SECTOR
Production Activity - Forecast from Q3-2021



Electrical domestic appliances industry forecast 2021-2022

Output in domestic appliances is set to recover strongly (+15%) in 2021 and much more moderately (+1.4%) in 2022, after three consecutive annual drops (-2.8% in 2020).

This is based on the assumption that home working will remain widespread in the EU, albeit not as much as it has been since March 2020. In addition, developments linked to the so-called “Internet of Things” (i.e. smart applications that enable to connect and set home appliances and devices and systems over the Internet) should also benefit the sector.

However, growth is expected to slow down considerably over the course of 2022, particularly over the first two quarters, as a result of the huge disruptions along the global supply chain (lack of components and materials, very high energy prices and shipping costs, etc.). They are not expected to ease significantly before the first quarter of 2022 at least.

EU economic outlook 2021-2022

GDP growth

Despite some uncertainty due to COVID variants and current global supply chain issues, EUROFER's GDP growth forecast is +4.7% for 2021, revised upwards from +4.4% in the previous Outlook. GDP growth estimates for 2022 are set at +4.5%. EUROFER's GDP actual growth figure for 2020 in the EU was -6%. This was the first recession since 2013 and the sharpest on record.

The continued rebound in economic and industrial activity observed in the EU after Q2 2020 –the pandemic-induced trough – has gained further speed over the first and the second quarter of 2021, driven by positive global demand led by the quick recovery in the US and China. Growth accelerated in Q1 2021 while the economic momentum has most probably peaked in Q2 2021, benefitting from the reopening of the service sector. In Q3 and Q4 2020 the rebound in economic activity was almost fully driven by the industry.

However, leading indicators have been showing some easing already since August 2021, paving the way for a possible pronounced turnaround in the economic outlook. Serious downside factors are increasingly hampering it, particularly for the industry. Skyrocketing energy prices (natural gas in particular), materials and components shortages, high shipping costs are resulting in a major global supply chain disruption.

As a result, inflationary pressures (commodity price rises and scarcity) are also source of concern, as this poses a threat to the sustainability of the ultra-accommodative monetary policy that has so far supported the post-Covid economic recovery in the EU. Q3 and even more so Q4 should reveal signs of subdued economic growth. Growing uncertainty is casting a shadow on the recovery for the second half of 2021 and at least the first quarter of 2022.

Quarterly GDP data covering the second quarter of 2021 do not yet reflect this deterioration in the global macroeconomic environment, as the second quarter most probably marked the peak of the post-pandemic cycle. On a quarter-on-quarter basis, the EU as a whole recorded GDP growth (+2.1%), as well as major eurozone economies such as Germany (+1.6%), France, Spain (both +1.1%) and Italy (+2.7%). The only EU countries registering negative GDP were Croatia, Luxembourg and Malta. The year-on-year comparison with the second quarter of 2020, when economic activity was stopped because of the pandemic, indicates +13.8% GDP growth in the EU, +9.4% in Germany, +18.7% in France, +17.5% in Spain and +17.3% in Italy.

Whilst GDP developments in the first quarter still suffered from the then-persistent weakness of the service sector - due to restrictive measures still in place -, quarter-on-quarter growth in the second quarter were also fuelled by the reopening of services, travels and hospitality industry in particular.

Expectations for stronger growth over the second half of 2021 have been contradicted by recent developments in commodity prices and ongoing supply chain disruptions, that have substantially modified the economic outlook in the EU and other advanced economic regions. In addition, the pandemic is not over. The persistence of the Delta variant still represents a source of concern and uncertainty, and mass vaccination plans, albeit gaining speed over the first half of 2021, remain below the implementation target, weighing down on economic confidence.

During the pre-covid economic slowdown of 2019 and – to a lesser extent – since the onset of the pandemic, GDP growth had been mainly led by domestic demand and private consumption in particular. This dynamic has proven resilient and gradually replaced exports as the main engine of growth during 2018 and 2019, notably in

largely export-driven economies such as Germany. Government consumption, used as a macroeconomic tool to alleviate the slump in demand and to support the economy, was the only GDP component which provided positive contribution to growth also during the second half of 2020. By contrast, private fixed investment has slowed down considerably over the first two quarters of 2021, after a substantial rebound over the second half of 2020 reflecting improved economic confidence.

Concerning private consumption, it has not proven sufficient to offset the negative developments of exports and other GDP components, and is also constrained by ongoing consumer uncertainty. The ECB has continued to signal a record high in saving deposits in the euro area over the first half of 2021 as a result of lower consumption for each unit of increased disposable income, reflecting subdued consumer confidence. Persistent uncertainty due to the pandemic, serious inflationary concerns and supply chain disruptions have induced major forecasters to review their global GDP outlook for 2021 and 2022. As a result, the IMF and the OECD have slightly lowered their latest global GDP projections for 2021 (the IMF reports 5.9% vs 6% in their July outlook; the OECD 5.7% vs. 5.8% in May).

Confidence indicators

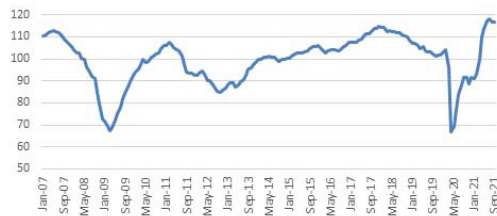
After the restart of the industry and along with the post-pandemic economic recovery, a spectacular improvement in confidence has been seen until the end of the second quarter of 2021. This has led to well above pre-pandemic levels peaking at 118 in July, a fourteen-year high, before easing in August and September following widespread concerns over supply chain issues and inflation. Data since the third quarter of 2020 have signalled an increasingly two-speed economy: whilst manufacturing output growth was sustained, and to the strongest degree in over two and-a-half years, service sector activity has continued to deteriorate. This divergence has substantially narrowed in recent months when activity in the service sector restarted, albeit not at its full potential.

The IHS Markit Eurozone PMI Composite Output Index indicated that, after rising at its fastest rate in 15 years in June, growth slowed down in September (56.2, after 59.0 in August and the lowest reading since April), as demand pressures cool and supply issues constrain business activity. At sector level, data showed services activity growing at a faster rate than manufacturing production for the first time since the COVID-19 pandemic started, reflecting the latter’s sensitivity to ongoing supply-related issues.

After the pronounced drop in industrial production in the EU (-8.2%) in 2020, EUROFER forecasts a rebound (+7.1%) in 2021 and a more moderate growth (+4.7%) in 2022.

EU industrial production, after the unprecedented year-on-year fall in the second quarter of 2020 (-20.5%) due to the pandemic, has bounced back significantly, recording quarter-on-quarter growth for four consecutive quarters (+1.3% and +0.3% in the first two of 2021, respectively). Despite these improvements, positive year-on-year growth (+3.4%)

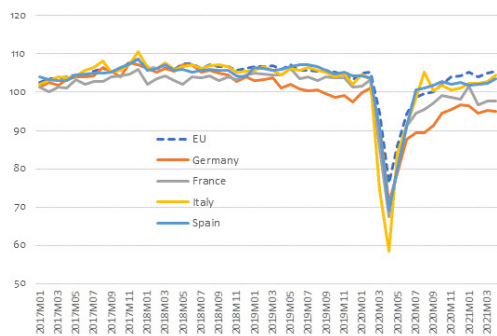
ECONOMIC SENTIMENT INDICATOR, EU
(long-term average=100)



IHS MARKIT EUROZONE COMPOSITE PMI OUTPUT INDEX
Eurozone GDP q/q%



INDUSTRIAL PRODUCTION INDEX, S.A., MONTHLY DATA (2015=100)



was registered only in the first quarter of 2021, while in the second quarter growth has scored +24.4%, due to the comparison with the exceptionally low output levels observed one year before.

In absolute levels, industrial output has recovered from the exceptional losses due to the pandemic but remained below the all-time highs recorded during the strong cycle of 2017.

Among individual countries, in the second quarter of 2020 Germany saw its return to growth (+19.7%), after five consecutive quarterly drops. France recorded +24%, Spain +30.4% and Italy +36%. However, monthly industrial production figures from August 2021 already hint at a clear slowdown in manufacturing activity in the EU, especially in Germany. Industrial output is likely to ease considerably over the second half of 2021 as a result of ongoing supply chain disruptions and increasing energy costs.

Economic fundamentals

According to WTO monthly data, world trade has improved substantially since the fourth quarter of 2020 and over the first quarter of 2021, due to the strong rebound in global demand mainly driven by China and the US, and at a later stage by the EU recovery. This trend has gained further speed in the second quarter of 2021, reflecting buoyant global demand despite worryingly rising transportation costs and oil energy prices.

As a result, world merchandise export volumes rose by 46% in the second quarter of 2021, much higher than the 17% increase already recorded in the first quarter.

All world regions recorded considerably increased volumes of exports in the second quarter of 2021. Europe's exports growth even outperformed Asia's, (+48% vs. +37%), but the highest rise was observed in North America (+55%). World imports growth also accelerated (+44%, after +14% in the first quarter of 2021).

Despite the long-lasting impact of the COVID-19 pandemic on the economy, labour market fundamentals have continued to prove resilient 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 EU unemployment rate, which had remained around late 2019 levels, started to rise peaking at 7.8% in September 2020 to gradually ease to 6.8% in August 2021. The unemployment indicator continues to conceal considerable variations across Member States and across economic sectors: employment in services was particularly impacted, given that the sector was able to restart at a large scale only over the second quarter of 2021. Consumers have been suffering from substantial decreases in their disposable income due to job losses, temporary lay-off or reduction of working time. This dynamic has slashed consumption growth. Despite government support and increased social expenditure to mitigate the impact of the pandemic, uncertainty will continue to weigh down on consumer confidence until at least the first half of 2021. Another major source of concern that has recently materialised is the rise in commodity prices, which is due to impact household energy costs and limit their purchasing power while increasing their savings propensity.

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, although the most noticeable effects will only be visible from 2022.

The ECB is expected to provide further support until the end of the current crisis. Additional measures are being discussed or reviewed, both at EU and national level. The objective is to provide adequate support for, and liquidity

EUROFER MACROECONOMIC DATA ANNUAL % CHANGE, UNLESS OTHERWISE INDICATED				
	2019	2020	2021	2022
GDP	1.5	-6.0	4.7	4.5
Private consumption	1.5	-7.5	3.3	6.4
Government consumption	1.8	1.0	3.1	1.1
Investment	2.8	-6.5	7.7	5.0
Investment in mach. equip.	1.8	-10.8	9.4	5.7
Investment in construction	3.9	-5.2	7.0	3.6
Exports	2.5	-10.1	9.3	7.2
Imports	3.2	-9.3	9.4	7.5
Unemployment rate (level)	7.0	7.6	8.0	7.6
Inflation	1.3	0.5	2.2	1.8
Industrial production	-0.7	-8.2	7.1	4.7

to, households and businesses so as to alleviate the huge social costs of the pandemic and the related output losses.

EU institutions have responded to the outbreak-related economic emergency with a detailed set of measures, but their implementation will require time. The Stability and Growth Pact and the Fiscal Compact have been suspended until the end of 2022 until further notice. With regard to monetary policy, the ECB has extended and enhanced its ongoing Asset Purchase Programme (APP, or Quantitative Easing, QE), launched in 2015 to tackle the already weak economic environment. The 'augmented' APP, now called Pandemic Emergency Purchase Programme (PEPP) and set to be operational until March 2022, will have an overall envelope of €750 billion including 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 rate at negative levels (-0.50%) and indicating that they will remain at current levels as long as required.

The European Commission has launched the SURE fund, worth €100 billion. The new resources will be distributed among Member States in order to provide short-time working schemes and tackle unemployment costs. Lastly, the NextGenerationEU package, designed to support the EU27 economies, will provide further €723 billion, out of which €338 billion in grants and €385 billion in loans. The envelope will be financed by issuing common bonds for the first time in EU history. The centrepiece of the package is the so-called Recovery and Resilience Facility (RRF), with a budget of €313 billion.

The NextGenerationEU will lead to an unprecedented increase in government debt, albeit mutualised. The first, successful issuance of EU bonds took place in June 2021, while national implementation plans are being approved by the European Commission. Considerable funds are already available for Member States to sustain their economies and support their recoveries.

Glossary of terms

Sector definitions according to NACE Rev.2

Building & Civil Engineering

- 41 _____ Construction of buildings
- 42 _____ Civil engineering
- 43 _____ Specialised construction activities
- 25.1 _____ Manufacture of metal structures and part of structures
- 25.2 _____ Manufacture of tanks, generators, radiators, boilers

Mechanical Engineering

- 28 _____ Manufacture of machinery and equipment
- 27.1 _____ Manufacture of electric motors, generators, transformers
- 25.3 _____ Manufacture of steam generators, except central heating hot water boilers

Automotive

- 29 _____ Manufacture of motor vehicles and trailers

Domestic Appliances

- 27.51 _____ Manufacture of electric domestic appliances

Other Transport Equipment

- 30 _____ Manufacture of other transport equipment
- 30.1 _____ Building and repair of ships
- 30.2 _____ Manufacture of railway locomotives and rolling stock
- 30.91 _____ Manufacture of motorcycles

Steel Tubes

- 24.2 _____ Manufacture of steel tubes

Metal Goods

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

Other sectors

- 26 _____ Manufacture of computer, electronic and optical products
- 27 _____ Manufacture of electric motors, generators, transformers and electricity distribution and control apparatus excluding 27.1 and 27.5

EU steel market definitions

SWIP: abbreviation for Steel Weighted Industrial Production index. 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.

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 the United Kingdom 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.



EUROFER
THE EUROPEAN STEEL ASSOCIATION

EUROFER AISBL

Avenue de Cortenbergh, 172
B-1000 Brussels
+32 (2) 738 79 20
mail@eurofer.be
www.eurofer.eu

 Follow us on twitter @EUROFER_eu