



The EU Steel Market amidst the war scenario and slashed economic outlook

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ECONOMIC OUTLOOK

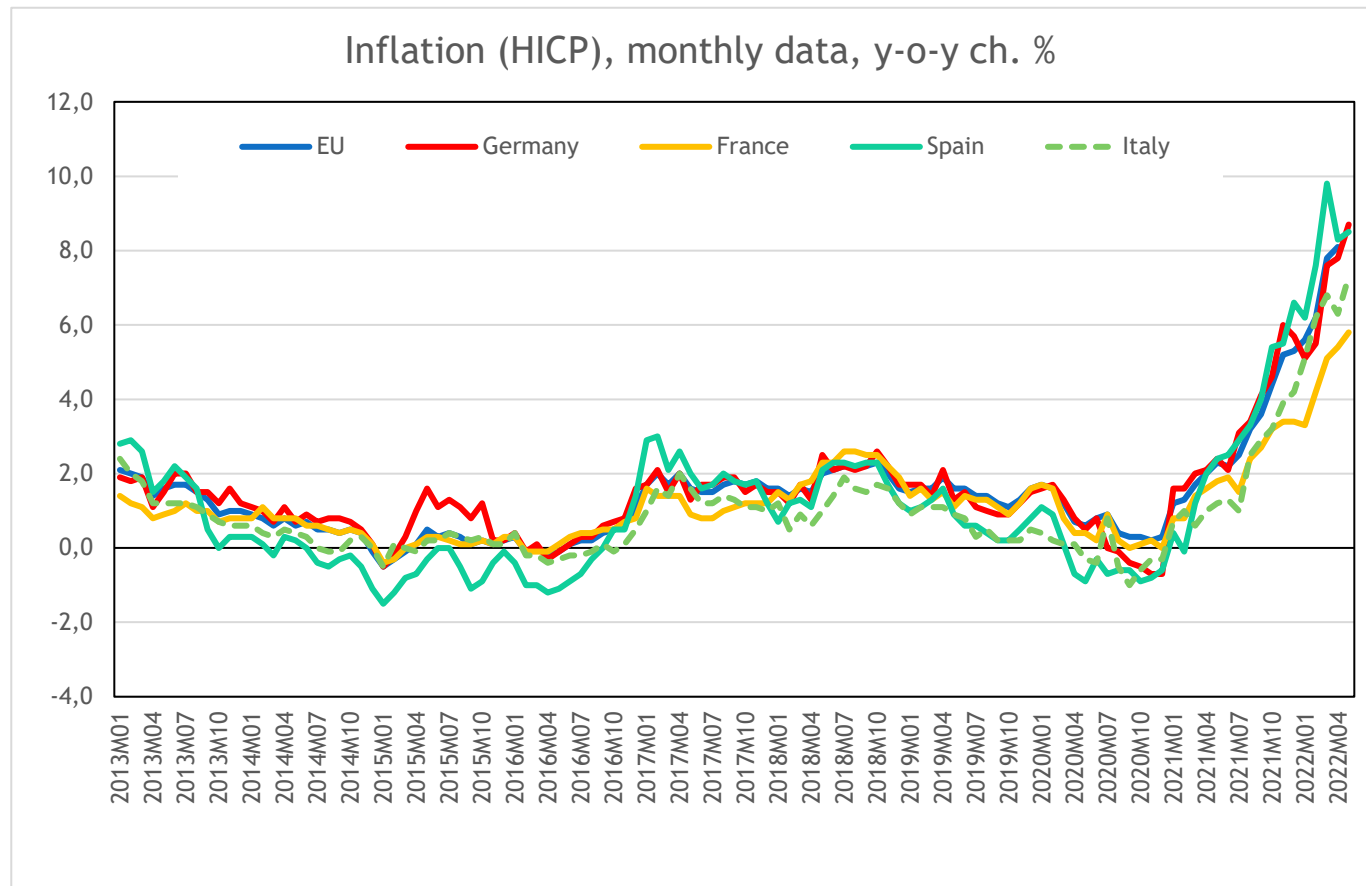
- Worst economic recession in the EU in 2020 ever, rebound in 2021
- Exceptional growth in real GDP in Q2 2021, lower in Q3 and even more so in Q4 and Q1 2022 due to continued downside factors (energy prices, high inflation and supply chain issues)
- The war in Ukraine has clearly slashed GDP growth prospects for all advanced economies
- Recession is ruled out, still
- EU's GDP set to grow by 2.9% in 2022 (vs. 4.1% previously foreseen), 2.7% according to the EC

	Q1 2022 (q-o-q)	2020 (EC Feb.'22)	2021 (EC Feb.'22)	2022 (EC Feb. '22)	2022 (IMF Jan. '22)	2022 (EUROFER Apr. '22)	2022 (EC May '22)
US	-1.4%* (annualised)	-3.5%*			4.0%		2.9%
Germany	0.2%	-4.6%	2.8%	3.6%	3.8%	2.0%	1.6%
France	0.0%	-7.9%	7.0%	3.6%	3.5%	2.9%	3.1%
Italy	0.1%	-8.9%	6.5%	4.1%	3.8%	1.9%	2.4%
EU	0.4%	-5.9%	5.3%	4.0%		2.9%	2.7%
euro area	0.2%	-6.4%	5.3%	4.0%	3.9%		2.7%

**Source: BEA; provisional*

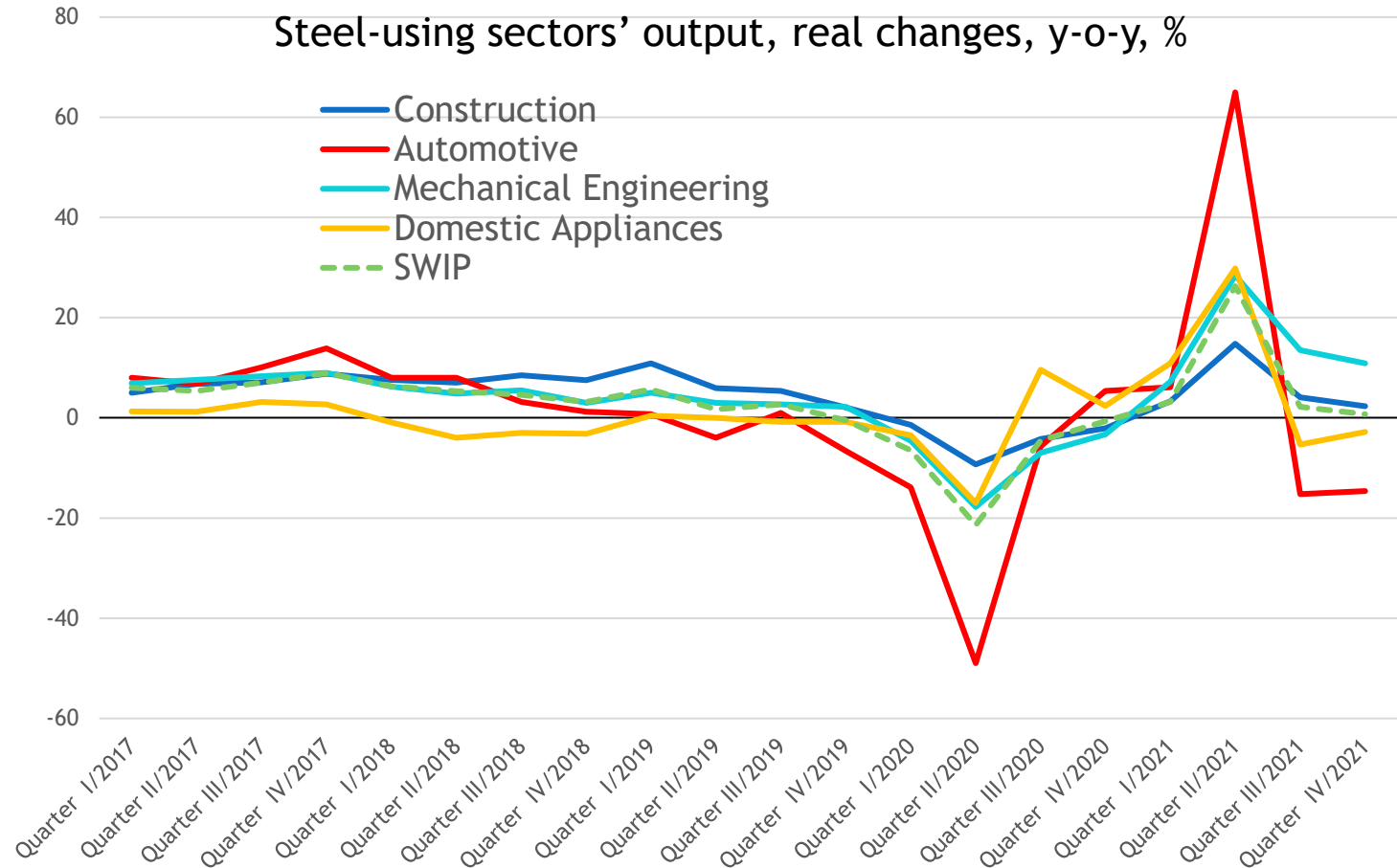
ECONOMIC OUTLOOK

- Inflation has reached highs unseen since 1993 as a result of the rise in energy prices and severe supply chain issues (8.7% in Germany in May, 7.3% in Italy etc)
- Not expected to ease in coming months
- Energy and electricity inflation in April 2022 in the EU was 36%



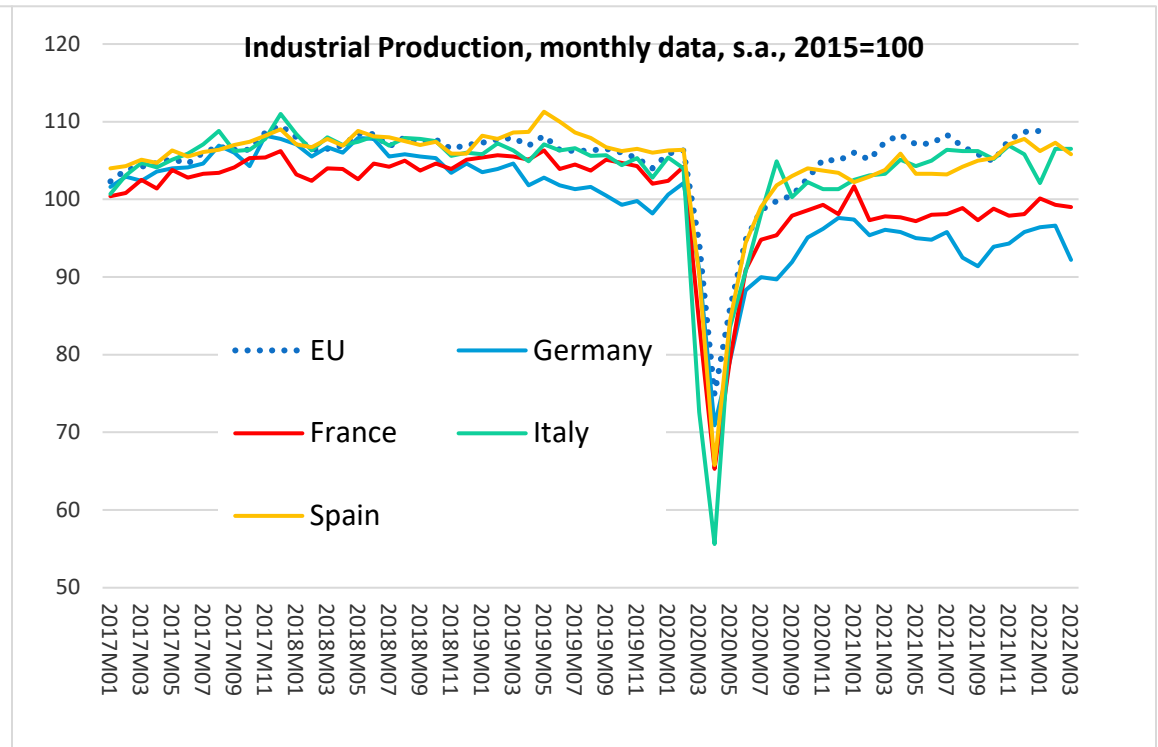
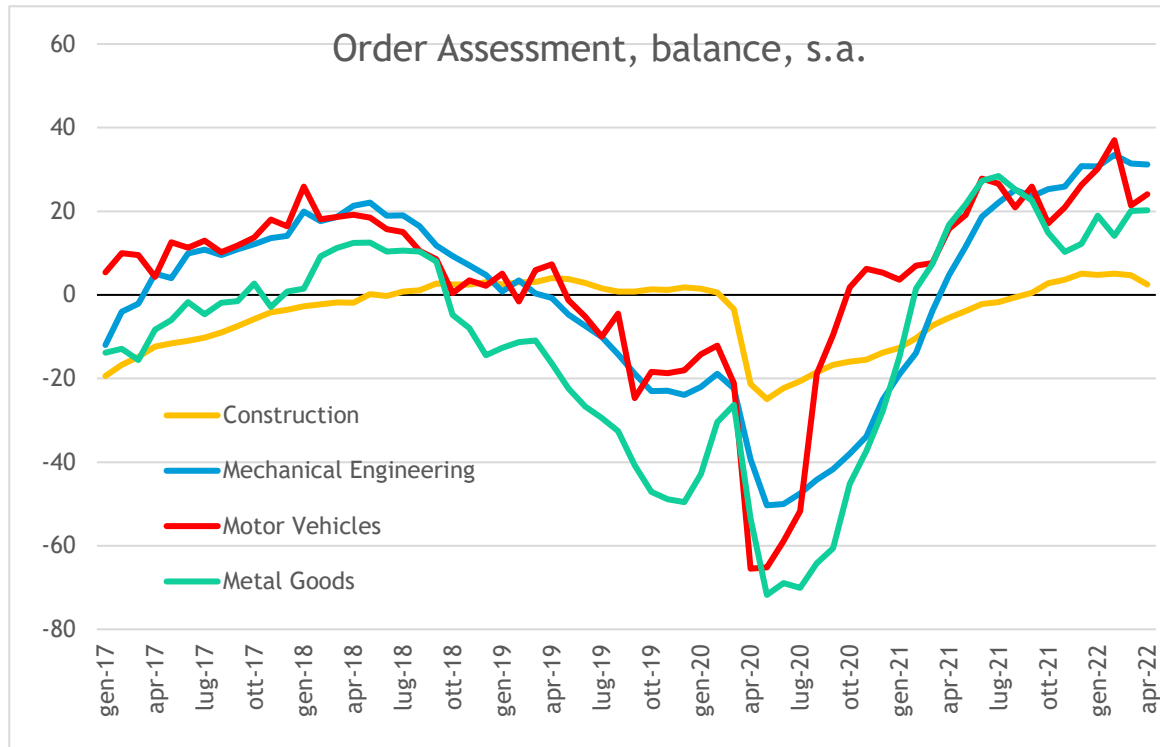
STEEL-USING SECTORS

- Strong rebound in steel-using sectors output rebounded after the trough in Q2 2020
- Exceptional year-on-year growth in Q2 2021, pronounced slowdown in H2 2021
- Automotive output had the strongest rebound but then dropped both in Q3 and Q4 '21 (-15.2%-14.6%),



STEEL-USING SECTORS

Latest leading indicators reflect the impact of severe global supply chain disruptions, only to a limited extent the impact of the war in Ukraine



STEEL-USING SECTORS

- The Covid recession of 2020 was milder than the 2009 financial crisis-led one; rebound followed in 2021
- Some steel-using sectors were in recession already in 2018 and 2019
- Automotive hit most severely in 2020; only modest rebound in 2021
- *Growth in output in 2022: Construction: 2.3%; Automotive: 4.9%; Mechanical Engineering: 1.3%; SWIP: 2%*

Latest EUROFER forecast (output growth, May '22, y-o-y, %)

Real output, s.a., y-o-y change (%)

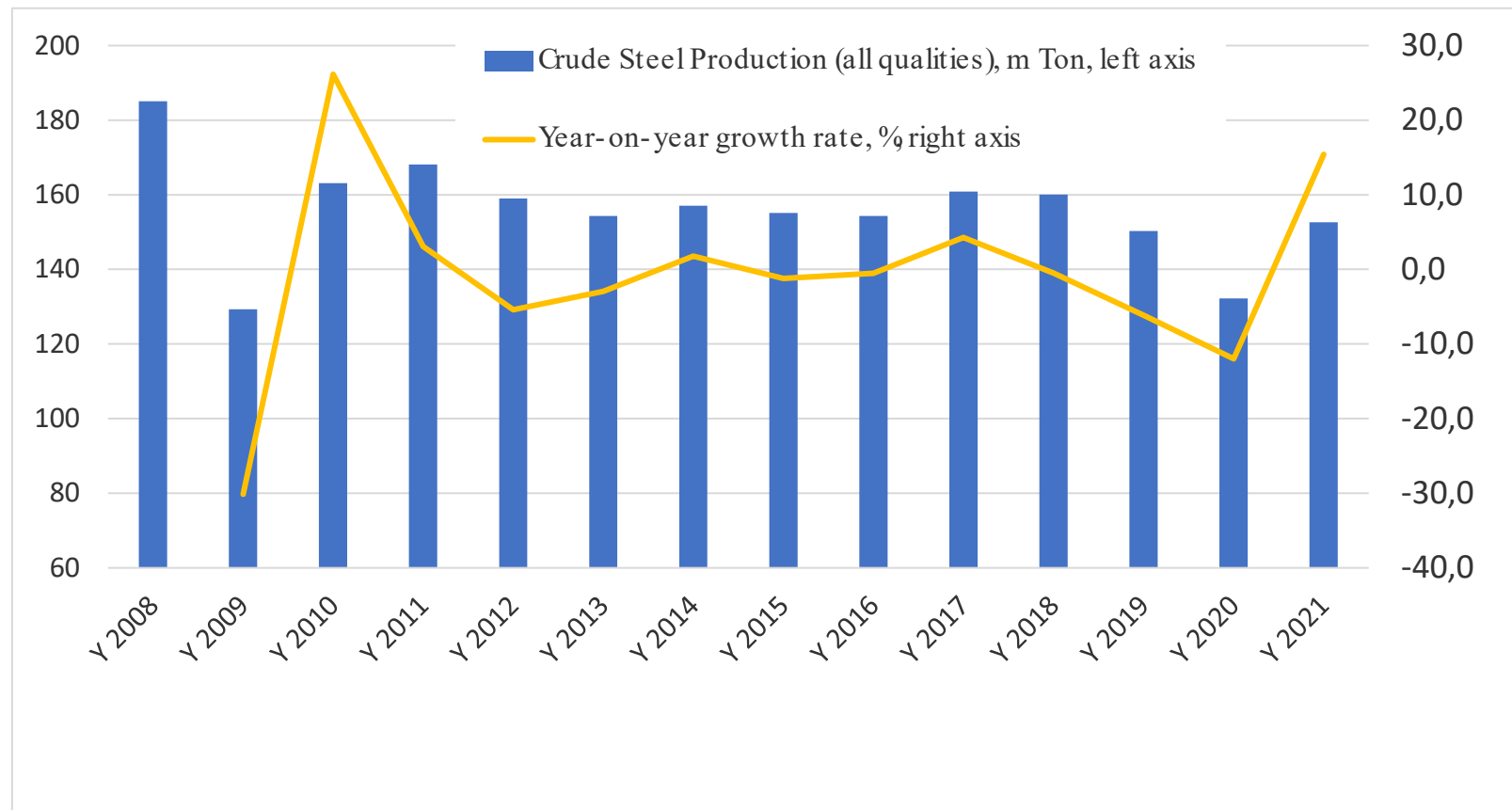
	Financial Crisis		Pre-Covid-19 recession	
	2009	2010	2018	2019
Construction	-9.5	-3.0	7.7	5.8
Mechanical Engineering	-25.4	11.5	4.8	3.2
Automotive	-26.3	20.0	5.2	-2.3
Domestic Appliances	-16.0	-2.1	-2.8	-0.3
Total SWIP	-19.7	6.0	4.8	2.4

f=forecast

	2020	2021	2022 (f)	2023 (f)
Construction	-4.2	5.9	2.3	1.5
Mechanical Engineering	-8.3	14.6	1.3	2.6
Automotive	-16.7	3.8	4.9	0.8
Domestic Appliances	-2.1	6.7	-3.3	2.0
Total SWIP	-8.4	7.3	2.0	2.3

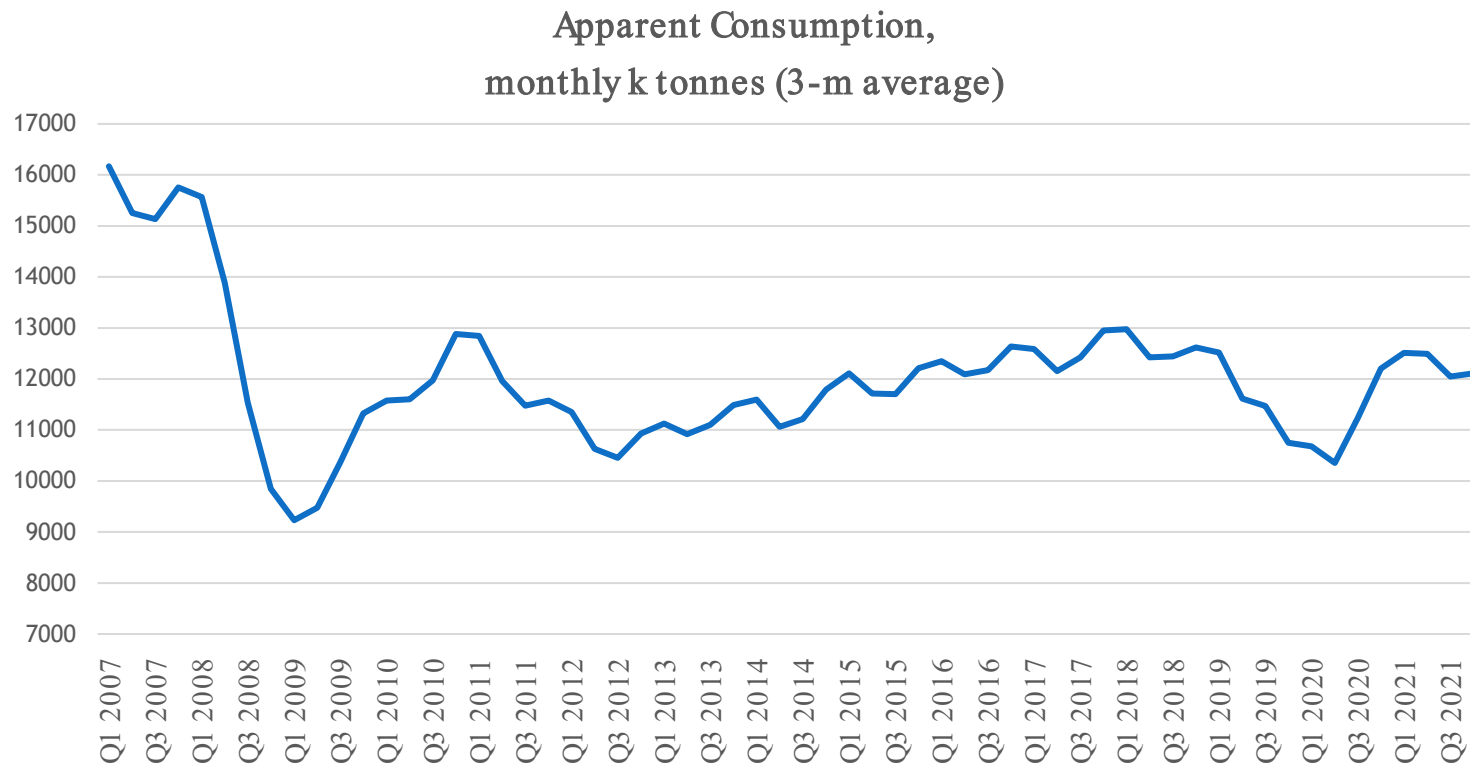
EU STEEL PRODUCTION

- The production drop in 2020 was abrupt but not the lowest on record: -12% in 2020, vs. -30% in 2009
- Rebound of 15% in 2021



EU STEEL CONSUMPTION

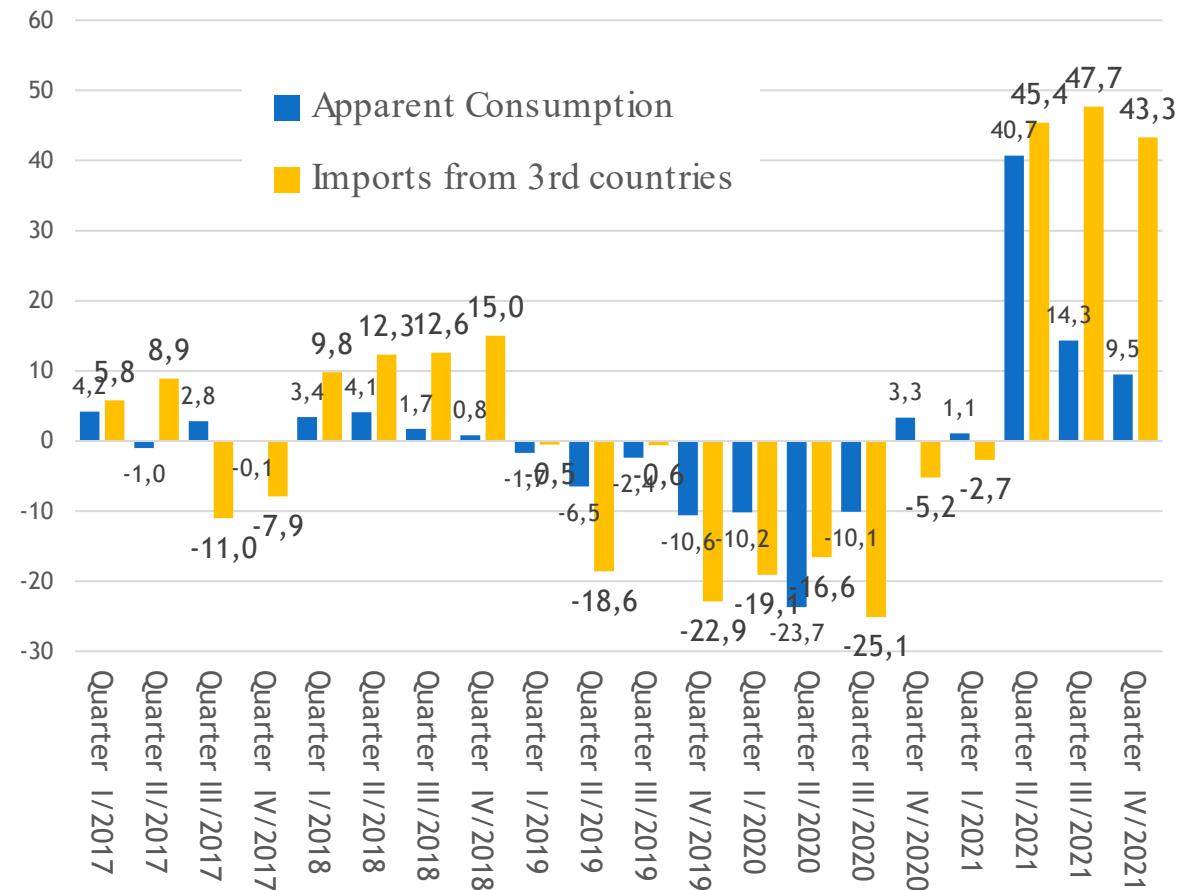
- Same decline in apparent consumption
- Strong rebound since Q3 2020, easing in Q3 and Q4 2021



Apparent steel consumption falling from early 2019 (well before the pandemic) reflecting negative trend in steel demand, manufacturing downturn and destocking

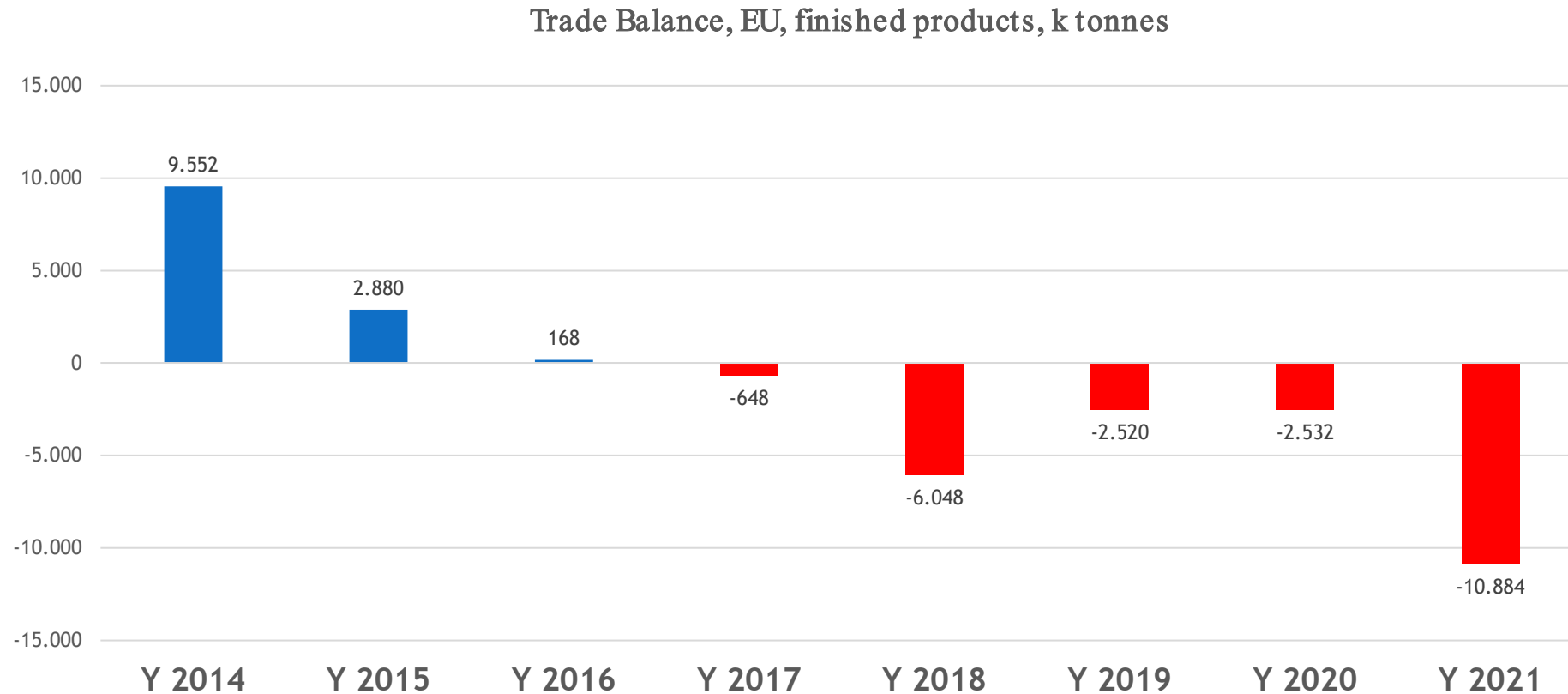
EU STEEL CONSUMPTION

- Rebound in demand since Q3 2020
- Exceptional growth in Q2 '21, due to the comparison to Q2 '20 data
- Slowdown in H2 2021
- Massive surge in imports
- Apparent consumption:
 - 5.2%(2019)
 - 10.7%(2020)
 - rebound by +15.2%(2021)
 - but -1.9%(2022), third recession out of the last 4 years
 - +5.1%in 2023



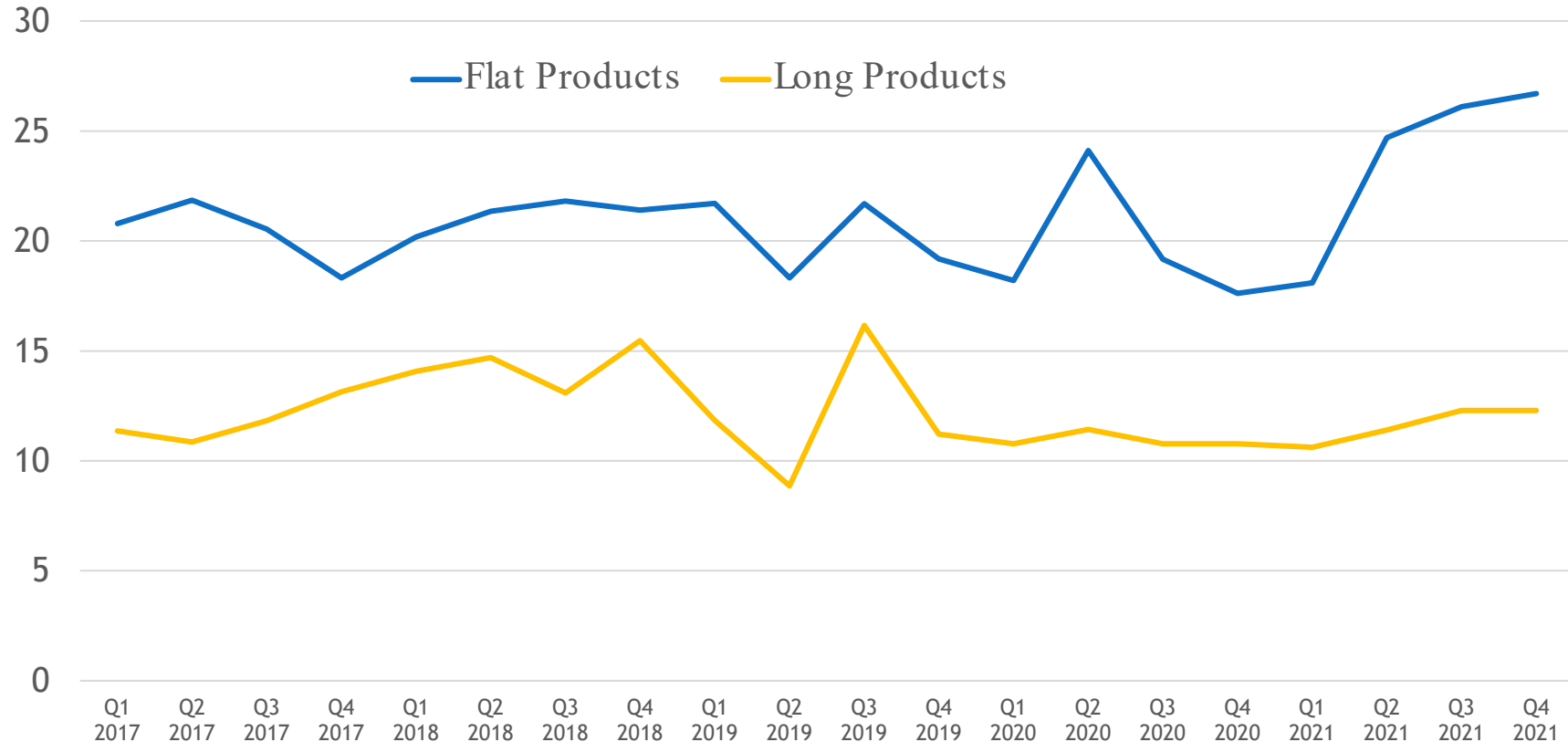
TRADE BALANCE

EU steel trade balance has been deteriorating since 2017
5 consecutive years of deficit, widening in 2021



IMPORTS SHARE OUT OF DEMAND (%)

Import penetration has remained around high levels, and has further risen in 2021 for flat products up to 27%



Outlook for 2022-2023

- The severe supply chain issues that have materialised since the summer of 2021 were expected to ease by the first half of 2022, but the war scenario has obviously worsened the picture: disruptions all along the supply chain, i.e. shortage of components (particularly lack of semiconductors for the automotive sector) very high energy prices and production costs, growing and long-lasting economic uncertainty
- High energy prices are expected to stay at least throughout 2022
- Due to the expected economic impact of the crisis, the suspension of fiscal rules (i.e. Stability and Growth Pact) has been extended until the end of 2023
- An ECB rate hike (25 bps) has been announced for July due to continued inflationary pressures as a result of rising energy prices and severe energy supply issues
- End of PEPP (asset purchase programme) scheduled in Q3 2022 and thus less room for expansionary economic policies (i.e. expansion of government debt)
- Possible stagflation scenario - inflation will stay around current levels (the highest since 1993) in EU countries at least until the third quarter of 2022
- War in Ukraine and slowdown in China will weigh on global outlook throughout 2022

Outlook for 2022-2023

- Steel-using sectors' output will be severely impacted throughout 2022, improvement is expected for 2023 albeit subject to wide uncertainty
 - EUROFER's latest output forecasts shows that automotive is most likely to remain the most vulnerable sector. Growth in '22 in '23 will not result in recovery of the losses seen in 2020 (-17%)
 - On the other hand the construction sector, thanks to continued public support (both at the EU and the national level), is expected to continue to prove more resilient
 - Overall, 2% SWIP growth (halved compared to our previous outlook)
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- Apparent steel consumption growth forecast for 2022 has been slashed, i.e. from +3.2% in our January Outlook to -1.9% in May (mostly due to destocking) but real consumption growth will be positive (+1.8%)
 - More robust growth (+5.1%) is foreseen in 2023, thanks to expected improvement of the overall industrial outlook

THANK YOU FOR YOUR ATTENTION!

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