EUROFER
The European Steel Association

29th October 2015

Economic and Steel Market Outlook 2015-2016

Q4-2015 Report from EUROFER's Economic Committee [1)]

EU macro-economic overview
(y-o-y change in %)

	EUROFER Forecast October 2015 EU			
	2013	2014	2015 (f)	2016 (f)
GDP	0.1	1.3	1.9	2.0
Private consumption	-0.2	1.3	2.1	2.0
Government consumption	0.2	1.1	1.1	1.1
Investment	-1.4	2.7	2.5	2.9
Investment in mach. equip.	-0.8	4.1	3.6	3.7
Investment in construction	-2.9	0.9	1.5	2.8
Exports	2.1	3.9	5.3	5.1
Imports	1.2	4.5	5.2	5.5
Unemployment rate	11.5	10.8	10.2	9.8
Inflation	1.5	0.6	0.2	1.0
Industrial production	-0.5	1.3	1.8	2.3

(f) = forecast

I. EU Macro-economic overview

- *Indicators signal growth to continue*
- *Consumers are driving GDP growth*
- *Investment struck by chronic weakness?*
- *Exports show resilience, for now*
- *Euro may not have hit the bottom yet*
- *Inflation trending down again in Q3'15*
- *EU on track for continued rebound*
- *Risk focus moves from Greece to China*

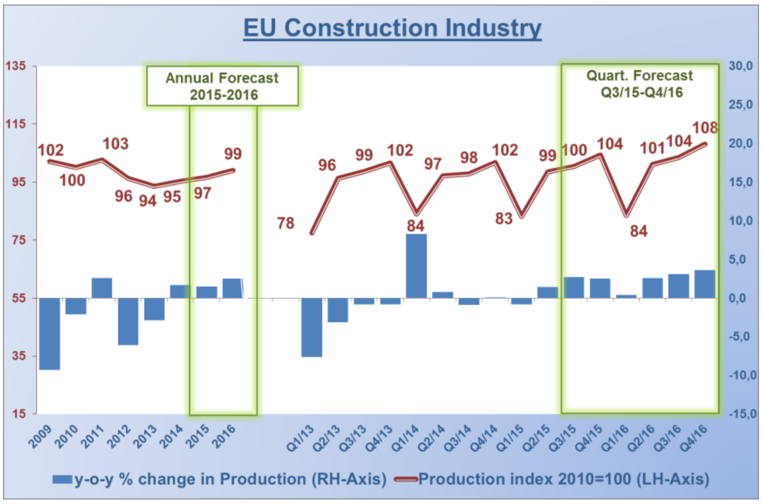
In the second quarter of 2015, both euro area and EU28 GDP rose by 0.4% quarter-on-quarter. Compared with the second quarter of 2014, GDP grew by 1.5% in the Eurozone and by 1.9% in the EU28.

Private consumption remained the primary growth driver, while net trade also contributed positively to the variation in GDP owing to an improving growth rate of exports – supported by the weaker euro - and slowing growth of imports. Investment growth disappointed, with negative quarter-on-quarter growth in the euro area. This suggests that corporate sector remains rather uncertain about their business prospects, with lately concerns about slowing growth in the emerging markets in general and China in particular weighing down on confidence.

The country breakdown of second quarter GDP data shows economic growth stagnating in France after a strong first quarter and slowing growth in Italy and several smaller EU countries. Growth remained robust in Spain, Poland, Sweden and the United Kingdom.

[1)] Based on information available as of 26h October, 2015

Construction



- ***Q2 activity grew modestly***
- ***Key driver residential sector activity***
- ***Recovery to gain strength going forward – also support from non-residential and civil engineering***

As anticipated, activity in the EU construction sector improved moderately in the second quarter of 2015, posting a 1.4% rise y-o-y, following still negative year-on-year growth in the first quarter.

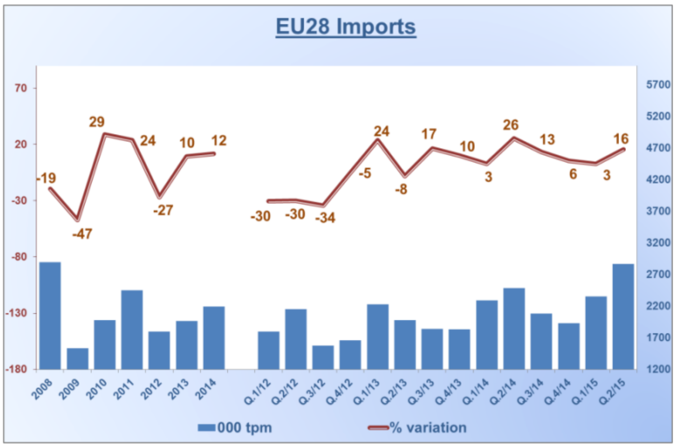
Only in France, Italy and Austria construction activity remained on a downtrend, but in the other markets output growth was generally positive. Particularly in Spain, the Netherlands and Sweden construction activity improved sharply compared with the same period of 2014.

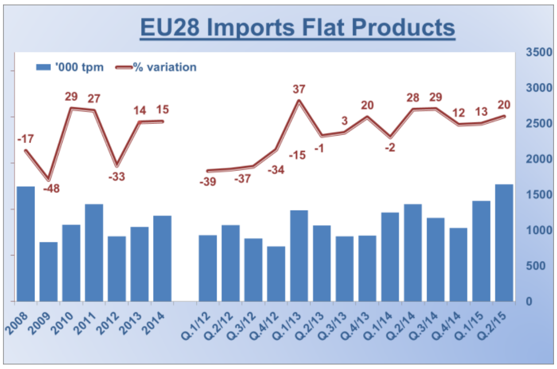
With regards to the performance of the construction subsectors, output growth in the EU remained primarily driven by the residential market segment. Meanwhile, non-residential activity is still rather sluggish, whereas large infrastructure projects remain scarce. Only in Poland, activity in the civil engineering sector is solid. Available data and indicators for the third quarter of this year suggest that output will gain further momentum as the recovery of the residential property sector in the EU gradually gains more traction. A continuation of this trend is also expected for the final quarter. All in all, total EU construction activity is forecast to rise by 1.5% in 2015

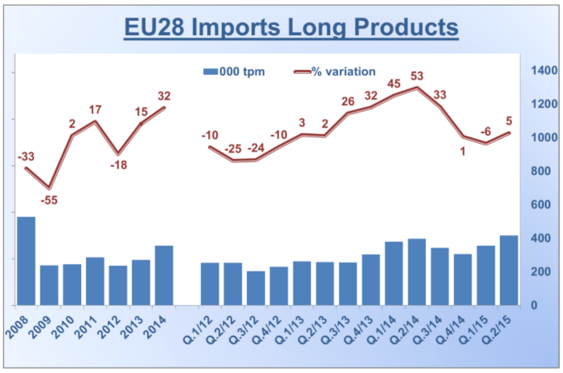
The outlook for 2016 is for a further improvement of construction sector fundamentals. Residential activity will continue to provide major support to construction sector output growth in the EU. The continuation of lower oil prices and improving labour market conditions is seen boosting real incomes and confidence. Combined with an expected further easing in access to and cost of financing, growth of demand for existing and new housing is seen gaining momentum.

The steady recovery of the residential market segment should also lead to improving prospects for non-residential demand, more specifically for commercial property such as shopping and leisure centres and warehouses. Last but not least, 2016 could be a turning point in civil engineering activity. In addition to an expected impulse coming from national investment initiatives - such as those in Germany and the UK - the Investment Plan for Europe is designed to unlock public and private investments in key areas such as infrastructure. The key challenge however remains how to mobilise sufficient private funding for the identified projects, in addition to rather modest public funding. Output in 2016 is forecast to rise by 2.5%.

Imports







- ***Imports remain on upward trend***
- ***Flats', longs' and semis' imports rising***
- ***Imports forecast to increase by almost 10% in 2015***
- ***2016 imports seen moderating***

Customs data for 2015 show EU third country steel imports remaining on an upward trend. Following 3% y-o-y growth in Q1 - with growth driven by a 13% rise in flat product imports while semis' and longs' imports fell by respectively 11% and 6% - the rise in imports accelerated to 16% y-o-y in Q2. In addition to flat product imports increasing by 20%, now also semis and longs increased compared with the same period of 2014, registering 12% respectively 5% growth.

Available data for the third quarter signal a further acceleration in the year-on-year growth rate of imports, to on average 31% y-o-y for total finished products: flat product imports rose 32%, longs' imports by 29%.

Over the first nine months of 2015, total finished product imports rose by 18% y-o-y, with flats' import 21% up and longs' 8%. Semis' imports (eight months) were 4% were higher than a year ago.

The three main countries of origin for steel imports to the EU are China, the Russian Federation and the Ukraine, together accounting for 60% of total imports. While Russia and the Ukraine dominate semis' imports into the EU via a 75% share, and account for a significant share in flat product imports, China has overall the largest share in flat product imports. The volume of finished product imports from China arriving in the EU grew 40% y-o-y over the first nine months of 2015.

EU imports from Serbia and Belarus continued to grow sharply. Serbian flat product exports to the EU grew 50% y-o-y over the first nine months of 2015. Meanwhile, Belarussian exports of long products were 65% y-o-y up.

As long as surplus production in China is being pushed into the global export markets, traditional trade flows will continue to be distorted, fuelling the fight for tonnage, discounting while leading to margin erosion.

Third country imports are forecast to rise by almost 10% in 2015.

Following three consecutive years of relentless growth, imports are foreseen to moderate in 2016, in the assumption of a globally better adjusted steel demand and supply situation.