EUROFER
The European Steel Association

31st January 2013

Economic and Steel Market Outlook 2013-2014

Q1-2013 Report from EUROFER's Economic Committee [1)]

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

	EUROFER Forecast January 2013 EU			
	2011	2012 (e)	2013 (f)	2014 (f)
GDP	1.5	-0.4	0.0	1.4
Private consumption	-0.1	-0.9	-0.4	0.8
Government consumption	-0.1	0.0	-0.6	0.1
Investment	1.7	-3.0	-1.2	2.3
Investment in mach. equip.	4.2	-5.0	-1.2	3.4
Investment in construction	-0.4	-2.5	-1.9	1.3
Exports	6.2	2.2	2.5	4.8
Imports	3.4	-0.3	1.5	3.8
Unemployment rate	9.7	10.6	11.2	11.2
Inflation	3.0	2.5	1.8	1.7
Industrial production	3.3	-2.5	-0.4	2.4

(e) = estimate (f) = forecast

I. EU Macro-economic overview

- ***Eurozone in recession in Q3-2012***
- ***No improvement in Q4***
- ***Indicators strengthened late 2012***
- ***Domestic demand to fall again in 2013***
- ***Only exports contribute to growth***
- ***Industrial activity will not recover before 2014***
- ***EU stagnation most likely scenario for 2013, return to growth in 2014***
- ***Risks appear more balanced***

In line with earlier expectations, the EU economy remained weak in Q3-2012, with GDP growing by a meagre 0.1% quarter-on-quarter in the EU27 and falling by 0.1% in the Eurozone. Domestic demand remained severely depressed, particularly in the Euro area, due to the overall lack of confidence and financial restraints. At the same time, the contribution from exports to GDP was affected by sluggish global trade growth.

Internal dynamics in the EU were characterised by weaker support from Germany and France, countries which so far had been rather resilient amidst strengthening economic headwinds. Meanwhile, countries facing major economic problems such as Spain, Italy, Portugal and Greece continued to show substantial contractions in GDP.

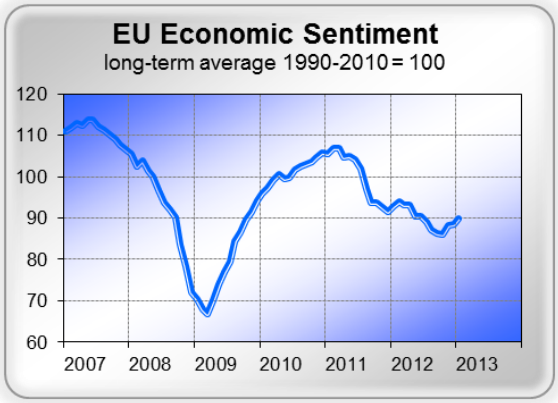
With hard data for the first three quarters and indicators and estimates signalling no meaningful change in underlying economic conditions in the final quarter, the EU economy is

estimated to have contracted by 0.4% in the whole of 2012.

Light at the end of the tunnel?

Several economic indicators show a mild improvement from the end of last year.

The EU economic sentiment indicator improved slightly since November 2012; the rise in the index for the Eurozone was even a bit more pronounced.



Also the Markit Eurozone PMI Composite Output index edged higher during the past 3 months. Nevertheless, despite the improvement, actual readings of most economic indicators are still well below their long-term average.

Moreover, in recent weeks the first cautious signs could be observed that reforms in the most troubled countries are beginning to work. It appears that some progress has been made in the reduction of their current account deficits and in restoring price competitiveness. Although the process has been slow and rather erratic, it has strengthened hopes that the necessary structural reforms are finally beginning to gain some traction.

EU stagnation the most likely scenario

Despite these improvements, an economic recovery in the EU is not on the cards for 2013. It will take a relatively long time before positive effects stemming from improving confidence levels and reforms will start to filter through to the real economy. Therefore, the most likely scenario for the EU in 2013 is stagnation in growth over the whole of 2013. Nevertheless, during the year, a slow but gradual improvement in economic conditions should set the stage for a more supportive economic environment towards the end of the year.

Domestic demand to decline further

Meanwhile, underlying economic conditions look set to remain depressed for the time being. Without a meaningful improvement in corporate and consumer confidence, the current weakness in domestic demand will persist.

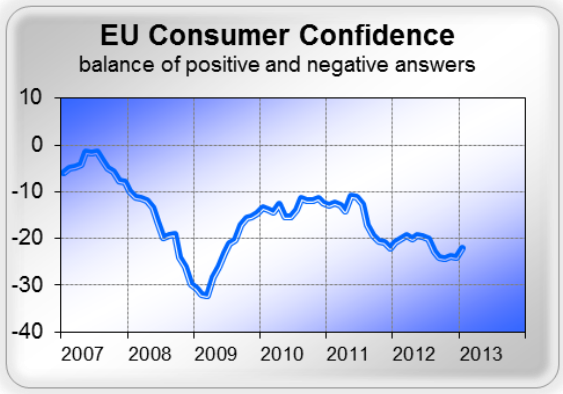
The key factor depressing confidence is EU's policy response which is generally assessed as inadequate and delayed. The damaging effect of weak confidence on investment and private consumption is compounded by widespread deleveraging in the financial and non-financial sectors.

Business investment is forecast to fall further this year, although the expected decline of 1.2% will be less pronounced than the more than 3% reduction estimated for 2012.

Financing and credit restraints will continue to have major impact on investment, despite the fact that strains in the EU financial markets eased somewhat after September last year. The improvement in financial market stability was largely the result of policy measures announced by the ECB and European Commission.

However, so far there is little evidence that actual bank funding is improving. The majority of banks continued to apply very tight credit standards, particularly those in the more troubled countries. This means that in these countries basically all types of borrowers are confronted with high bank lending rates.

The long duration of the economic slowdown also translates into severe liquidity problems in the corporate sector, caused by the rapidly increasing number of insolvencies and non-respect of payment terms.
The negative trend in investment is seen flattening towards the end of 2013. A moderate growth of almost 2.5% is forecast for investment in 2014.
Private consumption is also expected to contract for the second year in a row in 2013. Consumer confidence is dented by weak or even negative disposable income growth perspectives and rising unemployment.



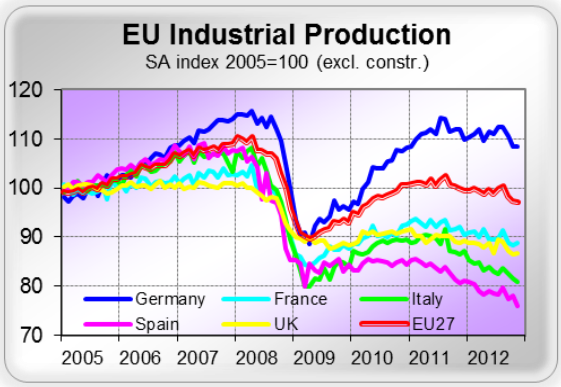
The Eurozone unemployment rate rose to 11.8% in November 2012, continuing the rising trend which started mid-2011. The unemployment rate stood at 10.6% in November 2011. Prospects for the labour market in 2013 are bleak, with weak growth, austerity and uncertainty having adverse effects on hiring decisions. Therefore, unemployment looks set to increase further this year to above 11%. The economic scenario for 2014 suggests a mild improvement in unemployment.
Following a drop of 0.4% in 2013, private consumption is foreseen to increase by just below 1% in 2014.
Government consumption – having remained fairly stable in 2011 and 2012 – will feel the brunt of rigorous austerity schemes in 2013. Weak or negative growth projections for 2013 have forced government to step up spending cuts and budget discipline in order to meet their deficit targets. For 2014 it is expected that government consumption will stagnate around the 2013 level.

Only exports to contribute to growth

The only positive contribution to EU economic growth in 2013 will stem from exports. Also in 2014 exports are foreseen to remain the key driver of growth in the EU, although domestic demand should gradually start to improve as well.
The global economy is foreseen to gain traction during 2013 and strengthen further in 2014. Economic momentum is seen improving, particularly in the emerging regions. With inflation largely under control, looser fiscal and monetary policies remain an option for stimulating domestic economic momentum in most emerging countries.
This will provide a welcome boost to their domestic economies and will be supportive to shrug off the still negative impact of subdued demand from most western industrialised countries. The stronger than expected recovery in the Chinese trade balance in December 2012 hints at more robust economic growth in China and its trading partners in Asia.
The EU as a whole will surely benefit from the expected improvement in international trade.
However, at the country level the difference in export performance will be significant with the Northern European countries traditionally focussing on international trade benefitting the most from the pick-up in demand from third countries, much in contrast with most peripheral Eurozone countries which still underperform in terms of competitiveness.

Industrial activity under pressure

Q4-2012 activity data signal that the manufacturing sector in the EU lost further strength towards the end of last year.

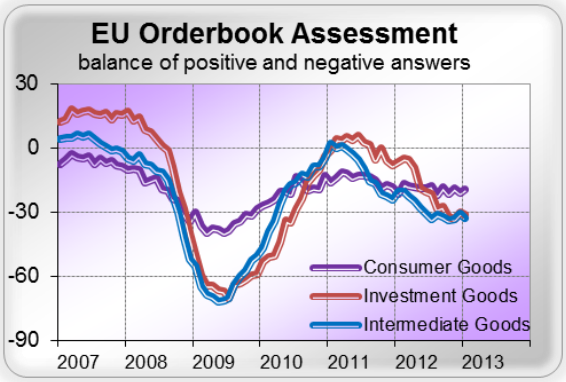


Industrial production decreased 3% y-o-y in October and 3.3% y-o-y in November, reaching the lowest level since April 2010. Also Germany suffered a marked drop in activity compared with still rather robust output levels registered some months earlier.

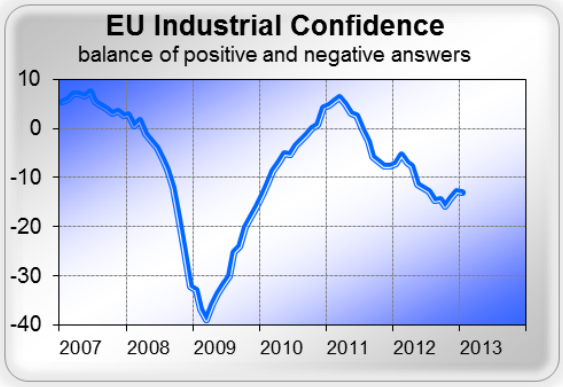
Basically owing to the resilience of German manufacturing, total EU activity had fallen only 2% over the first 8 months of 2012. However, the latest data signal that meanwhile the performance gap with 2011 has widened.

EU manuacturing activity holding reasonably well amidst strengthening economic headwinds reflects that particularly in the investment goods sector robust order books – which had increased strongly during 2010 and the first part of 2011 – had cushioned the reduction in demand on the internal EU market. However, with also export demand shifting into a lower gear during 2012 – more particular demand from China – order books have diminished and are no longer sufficient to camouflage negative global and EU demand trends.

During 2012, EU companies had become markedly more pessimistic about the order book situation in the investment goods sector. The current situation is assessed as fairly similar to the situation in the intermediate goods industry which has already been affectd by weaker bookings from Q2-2011 onwards.



Meanwhile, the latest manufacturing sector surveys suggest that the deterioration of order books is easing. Industrial confidence improved in November and December last year, as industrialists became less pessimistic about production expectations, stocks of finished products and order books.



Assuming that the upward trend in industrial confidence is not a temporary blip, it still will take several quarters before order intakes will register a meaningful recovery.

In 2013 the improvement will be purely export-led, with additional support from the domestic market only expected to kick in from 2014 onwards, in line with the recovery foreseen for investment in machinery and equipment in the EU. This implies that industrial output will again contract slightly in 2013 before growing by almost 2.5% in 2014.

Euro strengthening against the US$

Having touched a low of1.20US$ in July, the Euro strengthened from August to October. The turning point was set by the European Central Bank. The creation of the Outright Monetary Transaction (OMT) programme helped in easing financial market tensions and private funds from abroad flowing back into the peripheral Eurozone countries.
Also further progress on the restructuring of the Spanish banking sector - based on a sharp reduction in the size of their balance sheets and the creation of a “bad bank” - has been supportive to calm down financial markets and stifled speculation on disintegration of the Eurozone and the fall of the Euro.

Meanwhile, rising investor concerns about the US fiscal cliff had contributed to the US dollar losing some strength at the end of 2012.
In early 2013, the Euro strengthened further, to around US$1.35. A further appreciation of the Euro could seriously reduce the competitiveness of Eurozone exports, particularly from the distressed countries.
Taking into account the weak economic outlook for 2013, a further significant strengthening of the Euro does not seem very likely. Concerns about the European sovereign debt crisis could easily re-emerge.
The mild improvement in global economic fundamentals foreseen for the 2013-2014 should result in a gradual decline in risk aversion and the US dollar to some extent losing its safe-haven role. This could contribute to a mild further strengthening of the Euro.

ECB keeps refinancing rates steady

Early January the European Central Bank announced to keep its key refinancing rate steady at 0.75%.
While it was recognised that the EU economy had continued to perform poorly in the final quarter of 2012, the improvement in business confidence in the final months of 2012 did give the ECB reason to expect that conditions for a moderate economic upturn are slowly but gradually improving.
Euro area annual inflation amounted to 2.2% in December 2012, the same as in November, and 0.5 percentage-point below inflation in December 2011.
This confirms that inflation is largely under control, which implies that the ECB can shift its policy focus from ensuring price stability to avoiding another surge in financial tensions.

EU weakness seen lasting longer

The latest economic outlook from EUROFER’s Economic Committee confirms that 2013 will see the continuation of tough economic conditions.
EU’s Achilles’ heel remains domestic demand which will continue to be negatively affected by low confidence levels, financing restraints, austerity and overall still elevated uncertainty and risk levels.
The only support to economic growth is bound to come from exports. The latest indicators and activity data for the US and the emerging economies offer some perspective for expecting a moderate improvement in global economic conditions during 2013.
Following last year’s 0.4% contraction in GDP, the EU economy will stagnate

in 2013. The key assumption for this base case scenario is no further major escalation of the Eurozone sovereign debt crisis

Nevertheless, during the year a slow but gradual improvement in economic conditions should set the stage for a more supportive domestic economic environment in the EU towards the end of 2013. This will translate into a moderate economic recovery in 2014; GDP is forecast to increase by almost 1.5%.

Within this scenario it seems likely that business and consumer confidence will gradually improve and return to levels which will reduce current risk aversive behaviour. This should translate into investment and private consumption returning to growth in 2014.

Risks appear again more balanced

The main obstacle for a recovery of the EU economy remains how on a political level the Eurozone crisis is being dealt with.

So far, decision makers have focussed on solving the most imminent problems stemming from the debt crisis and banking sector restructuring. The return of a relative calm to the financial markets should not encourage EU policy makers to believe that the Eurozone crisis is over.

The Eurozone is also grappling with a growth crisis and competitiveness problems, which also require the right mix of short-term measures and longer-term structural reforms.

While in principle the contours of a roadmap for getting the EU out of the crisis have been sketched during recent summits of the European Commission, the failure to reach political consensus on the required policy response has been delaying this process. The lack of political will and social resistance to implement poses a major threat to the EU with respect to meeting deficit targets.

Moreover, the necessary reforms could also temporarily be derailed by the upcoming elections in Italy and Germany as political uncertainty could slow the pace of achieving progress on Europe's major issues.

Moreover, a further strengthening of the Euro could jeopardise the expected support from exports to economic growth.

The fiscal cliff in the United States remains a risk - for the US and the global economy - as basically only the taxation of higher incomes has been addressed in the agreement in the agreement reached in the Congress and the Senate. Late February negotiations on budget cuts and the mechanism for raising the debt ceiling will restart.

Similar to the situation in the EU, reaching consensus largely will depend on political will. For the time being, the budgetary and regulatory uncertainty will continue to act as a drag on the economy.

Geopolitical tensions in North Africa and the Middle East remain a risk as well. However, the situation has not changed significantly compared with some months ago.

Meanwhile, there are some positive risks as well. China appears to be on track for more robust growth in 2013 and 2014. Recent data and indicators suggest that also prospects for most other large emerging economies have improved lately.

An upside risk for the EU would be a timely and exhaustive resolution of the Eurozone crisis. Such a scenario would be supportive to confidence, domestic demand, economic growth and employment in the EU.

Similarly, a short-term agreement in the US on budget cuts and the debt ceiling would spur domestic economic growth which could have positive spill-over effects on the global economy.

USA

- ***Q3 GDP growth revised up***
- ***"Fiscal cliff" averted for the time being but uncertainty remains***
- ***Indicators support moderately optimistic outlook***

The latest revision for Q3-2012 GDP shows an increase at an annual rate of 3.1% q-o-q, which is significantly better than the first estimate of 2%. Key drivers were private consumption, stock building, federal government spending and residential investment.

Hurricane Sandy will drag down GDP growth in Q4 as will private sector destocking. All in all, the US economy is estimated to have grown by a moderate 2.2% in 2012.

In the nick of time, US Senate and Congress reached agreement about a bill which will temporarily avert drastic tax hikes and spending cuts. However, negotiations on spending cuts will restart in February whereas the debt ceiling negotiations are suspended until mid-May. Until the outcome is clear, confidence will remain shaky. Once uncertainty over the budget and fiscal policies has dissipated, private spending and investment could gain strength.

The latest indicator readings appear to support a moderately optimistic near-term outlook. The housing sector continued to improve in recent months. Job growth easily surpassed consensus expectations in November and December last year. The manufacturing PMI index was at a seven-month high in December, signalling solid expansion in the months ahead.

Following the initial curbs on growth in early 2013 the economy should strengthen mildly in the remainder of the year and gain further traction in 2014.

For 2013, a 2% rise in GDP is expected, with a further acceleration to around 3% pencilled in for 2014.

Key emerging regions

- ***China hard landing avoided***
- ***Tepid recovery in other BRICs***
- ***Growth to strengthen in 2013-14***

GDP in China grew only 7.4% in Q3-2012. Economic momentum strengthened in Q4, largely as a result of policy measures. Exports gained momentum at the end of the year. GDP growth in 2012 is estimated at just below 8%.

With a hard landing becoming a distant scenario, China appears to be on track for achieving stronger growth in 2013. Indicators suggest that the underlying strength of services and manufacturing sectors is improving. Also the housing market is holding up better than expected. The new government seems determined to implement the structural reforms required to reduce China's exposure to exports and stimulate domestic demand. Following growth of just over 8% in 2013, improving global economic momentum and rather loose monetary and fiscal policies should result in GDP growth of around 8.5% in 2014.

In India GDP slowed to 5.3% in Q3-2012. The outlook remains muted. Government deficits are high and the implementation of reforms looks uncertain. This will continue to hamper investment. Improving inflation and external demand will result in GDP rising by around 6% in 2013. A further improvement is foreseen for 2014.

In Brazil easing monetary and fiscal policies supported growth in H2-2012. GDP should strengthen further in 2013-2014 on the back of various stimulus measures and investment ahead of the world soccer cup and summer Olympics in 2014.

In Russia, GDP growth is seen averaging around 4% per annum over 2013-2014. While the outlook for domestic demand is rather solid, the main uncertainty stems from weak external demand and lower commodity prices.

II. The EU Steel Market

Overview Steel Using Sectors

Development of the main steel using sectors – EUROFER forecast January 2013
% change year-on-year in the SWIP (Steel Weighted Industrial Production) index[1)]

	% share in total Consumption	Q112	Q212	Q312	Q412	Year 2012	Q113	Q213	Q313	Q413	Year 2013	Year 2014
Construction	35	-5,1	-4,3	-5,0	-4,1	-4,6	-2,5	-2,5	-1,9	-1,1	-2,0	1,1
Mechanical engineering	14	3,2	-1,7	-2,8	-2,0	-0,9	-3,0	-0,3	0,4	2,1	-0,2	3,4
Automotive	18	0,2	-4,4	-3,5	-5,9	-3,4	-6,5	-2,7	-2,0	3,4	-2,1	3,4
Domestic appliances	3	-2,6	-1,7	-2,4	-1,1	-2,0	-2,5	-0,1	0,5	2,0	0,0	2,8
Other Transport	2	1,0	6,9	2,3	-0,1	2,5	3,0	3,6	6,5	7,2	5,0	6,9
Tubes	12	-5,0	-6,7	-5,5	-2,1	-4,9	1,1	-0,3	-0,9	1,1	0,3	3,1
Metal goods	14	-0,6	-3,8	-3,0	-2,0	-2,4	-2,3	-0,1	2,0	3,2	0,6	3,5
Miscellaneous	2	0,1	-2,7	-2,4	-2,2	-1,8	-2,5	0,1	1,2	2,3	0,3	3,1
TOTAL	100	-1,8	-3,8	-3,9	-3,4	-3,3	-2,8	-1,3	-0,5	1,4	-0,8	2,7

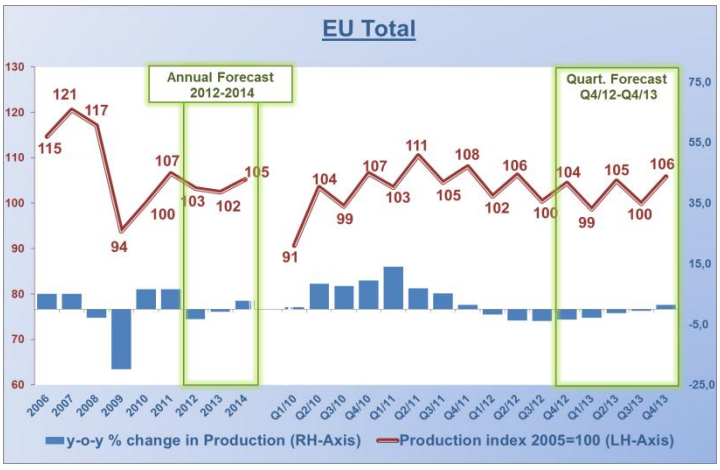
- ***Weak activity H2-2012***
- ***Further reduction in output steel using sectors in 2013***
- ***Industrial climate to improve from 2014***

As expected, activity in the steel using sectors in the EU continued to weaken during the second half of 2012. The latest activity data show total output falling by almost 4% y-o-y in Q3. A further 3.5% drop in production is estimated to have taken place in Q4. This means that in total activity in 2012 contracted by almost 3.5%.

Domestic demand in the EU had already started 2012 on weak note. The second half of the year was characterised by a further drop in business sentiment and intensifying financing restraints. At the same time, export demand came under pressure due to the slowdown in global economic growth.

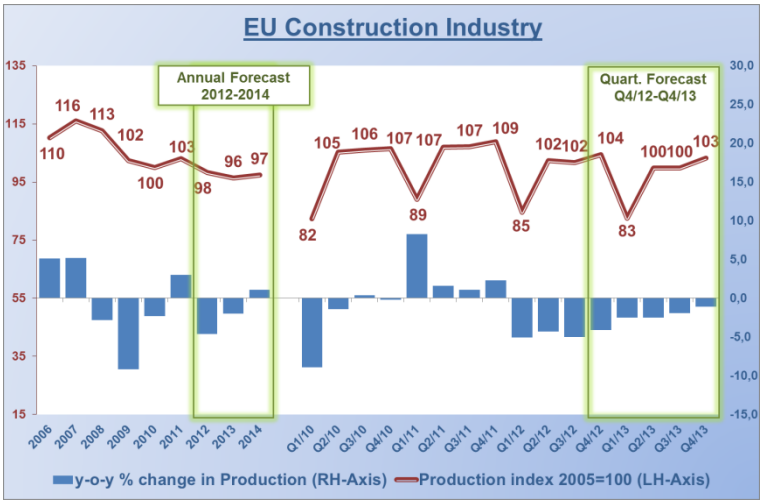
The outlook for 2013 is rather bleak. Total activity in the steel using sectors is expected to register a further decline due to the continuation of difficult operating conditions across most sectors. Particularly domestic demand looks set to remain sluggish due to austerity, still weak confidence and difficult access to finance. Exports should provide some support, based on the expectation of emerging markets resuming a more robust growth pattern during 2013. On balance, activity in the EU steel using sectors will fall almost 1%.

For 2014 a moderate recovery in the EU is expected, driven not only by exports but also by investment and private consumption. The SWIP index is forecast to increase by 2.5-3%.



1) As of 2013, "steel structures" is no longer a separate sector but is included in the construction sector. Shipbuilding activity is now included in "other transport" which includes all non-automotive transport equipment such as railway material, air & spacecraft and motorcycles

Construction



- ***Sharp drop construction activity in 2012 – all sectors hit hard***
- ***Bleak outlook 2013 – also for countries which registered growth in recent years***
- ***Construction demand and output will rise slightly in 2014***

Construction activity in the EU shrank 5% y-o-y in the 3rd quarter of last year. Q4 output is projected to have fallen by around 4%. All in all, output in the construction sector declined by an estimated 4.6% in 2012, the sharpest annual drop in production since 2009.

Construction demand was severely affected by the impact of austerity measures on public sector investment. Although this had repercussions on activity in all construction sectors, it affected civil engineering and non-residential works in particular.

Meanwhile, risk aversion due to economic uncertainty and financing restraints acted as a drag on private investment in the residential and non-residential sector. Renovation and modernisation activity continued to perform relatively well but this type of construction activity is significantly less steel intensive than new projects.

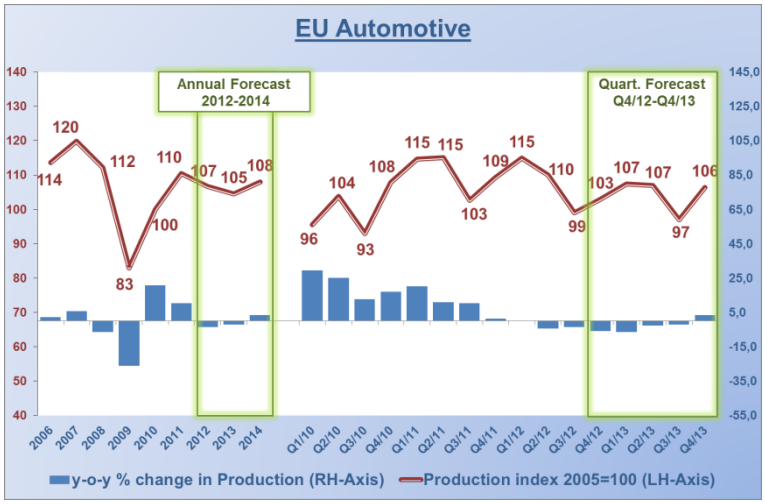
The strongest reduction in activity was registered in Spain, but also in Italy, the Netherlands and Slovakia output fell sharply compared with the preceding year. Output in Austria, Sweden and Poland registered a moderate increase in 2012.

The outlook for 2013 is bleak. Construction investment is expected to decline further, for the sixth year in a row. Austerity will intensify, in order to meet EU deficit targets amidst a weakening economic framework. Confidence is seen remaining subdued for the time being and also restrictive financing conditions will continue to act as a drag on private construction investment. Countries which had seen strong constructing sector momentum in recent years will face more challenging market conditions. This is the case in Germany and Sweden, despite further support from residential construction demand. In Poland, the boost from infrastructure investment has come to an end in 2012; 2013 construction activity is forecast to decline rather sharply. Spain will remain the weakest construction market in the EU with output falling by another 10%.

All in all, EU construction sector activity will contract by 2% this year.

In 2014, improving economic conditions, rising sentiment and easier financing should unleash some pent-up demand across the EU and result in a rise in EU construction of around 1%.

Automotive



- ***2012 car sales fell 8.2% y-o-y***
- ***CV sales 12.4% down y-o-y***
- ***Car exports losing strength***
- ***Demand weakness to continue in 2013 – exports to improve but few producers benefit***
- ***Output to drop 2% in 2013***
- ***2014 activity expected to recover***

EU passenger car sales fell 8.2% y-o-y in 2012; November and December sales slid sharply. Only UK registrations increased last year, while in all other large markets demand remained on a downward trend. In 2012 passenger car demand fell for the fifth straight year. Since 2008, the EU car market has been reduced from 15.5 to less than 13 million cars.

Also the commercial vehicle market is affected by the economic crisis. Sales in December 2012 were 23.4% down on the same month of 2011. Total registrations have fallen by 12.4% last year, reversing the positive trend in demand in 2010 and 2011.

Exports of cars had been holding up relatively well until mid-2012, but came under pressure during the 2nd half of last year due to the economic slowdown in key export markets such as Japan, China and India. Mainly premium-brand car manufacturers in Germany and the UK benefitted from still relatively robust demand from abroad.

EU output fell by 3.5% in Q3-2012 and is estimated to have contracted by a further 6% in Q4. The total drop in production in 2012 is projected at around 3.5%.

The slump in the EU automotive market looks set to continue in 2013. Low levels of consumer confidence, more difficult financing conditions and the widespread use of fleet renewal schemes offered between 2009 and 2011 limit currently any upward potential in the car market, in spite of heavy discounting by the OEMs.

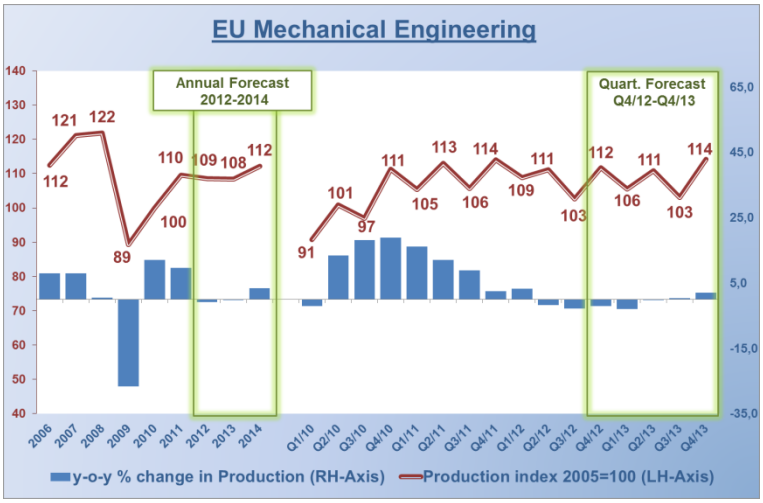
A mild improvement in export demand is likely to be seen during 2013, but will not come to the rescue of the mass producers selling mainly in the depressed Southern European markets.

Falling business investment will curb commercial vehicle demand across the EU.

All in all, EU automotive output is forecast to contract by another 2% in the whole of 2013, with only in the final quarter of the year some improvement expected in market conditions.

For 2014 a mild rebound in EU vehicle demand – supported by an improving economic and financial framework – will set the stage for a moderate increase in automotive production, currently forecast at around 3.5%.

Mechanical Engineering



- ***Despite more pronounced drop in H2, 2012 activity fell only 1%***
- ***Domestic demand to remain weak in 2013 – exports could revive***
- ***Improving operating conditions in 2014***

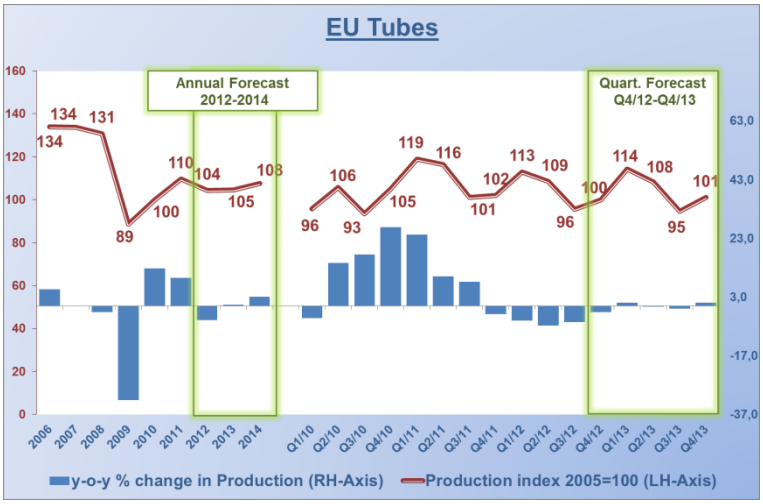
EU mechanical engineering activity gradually lost strength in the second half of 2012. Q3 output fell 2.8% y-o-y and a further drop of around 2% is projected for the final quarter of last brings. This resulted in an estimated reduction in production of around 1% in 2012. Several countries still posted growth; this was the case in Germany and the UK as well in most central European countries which have strengthened their position as parts and components supplier in recent years. The drop in output in the other EU countries was relatively moderate. On balance, this steel-using sector managed to withstand rising economic pressures during 2012 relatively well.

A factor which has contributed to this result is the fact that the mechanical engineering industry works with order books which normally account for at least several quarters of work. Strong bookings in 2011 and the relatively moderate reduction in order intakes until mid-2012 softened the downturn in activity in 2012. Nevertheless, the synchronised weakening in domestic and export demand for machinery and equipment in the second half of last year and orders books getting depleted resulted in a more pronounced drop in output.

The outlook for 2013 is for output in the mechanical engineering sector to stabilise around the year earlier level. Domestic demand in the EU will most likely remain rather subdued for the greater part of the year; EU investment in machinery and equipment is forecast to fall by another 1.8% this year following the 4.3% drop in 2012. It needs to be seen whether the late 2012 improvement in business sentiment will stick and when it will translate in improving EU orders. Difficult financing conditions will for the time being act against a short-term rebound. Meanwhile, the expected economic recovery in the emerging regions should provide support to overall activity levels. Only France, Italy and Sweden foresee a slight further drop in activity in 2013.

Improving economic settings in 2014 and business sentiment returning to levels which are more supportive to investment in capital goods as well as the expected growth in exports should lead to activity in this sector rising by around 3.5% in 2014.

Tubes



- ***2012 tube output almost 5% down - large country differentials***
- ***Weak end-user markets in 2013***
- ***Hopes pinned on pipeline projects***
- ***Mild rebound output in 2014***

Steel tubes output in the EU contracted by 5.5% y-o-y in the third quarter of 2012. Spain and Sweden registered a particularly sharp reduction in activity.

Estimates for production in the final quarter of 2012 signal that the downward trend in output continued across the EU, albeit at a less pronounced year-on-year rate of decline than in the first three quarters of the year. Total output in the EU steel tubes sector is projected to have decreased by almost 5% in 2012.

At the country level, the differentials in tube production activity remained significant. Output in Poland and Slovakia still increased in the whole of 2012, whereas France, Spain and Sweden registered a sharp drop in output.

Demand for steel tubes in the EU suffered from the gradual weakening in activity in its key client sectors.

The continued slump in the construction sector and deteriorating operating conditions in other sectors such as the automotive industry and the metal goods sector translated into smaller tonnages of precision tubes, small and medium-sized welded steel tubes as well as hollow sections being sold. With a large part of downstream tube requirements being supplied to downstream end-user sectors via the distribution chain, also inventory reductions by stockholders and merchants played a role in the negative trend in demand.

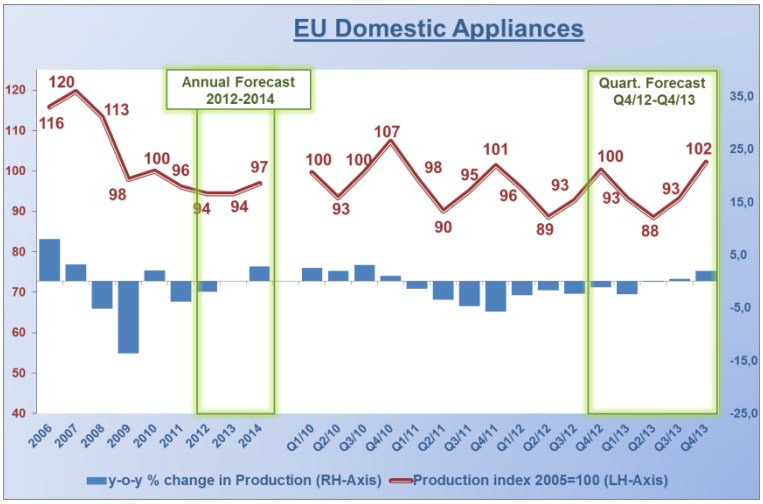
Large diameter steel tube consumption from pipeline projects was affected by the delay in the start-up of several large projects across wider Europe.

The outlook for 2013 is for a low-level stabilisation at best. Activity in the key steel tube using sectors will remain sluggish until late 2013. For the large welded tube sector, hopes are pinned on several large pipeline projects being taken into actual production in 2013.

On balance, steel tube production is forecast to stabilise around the 2012 level.

For 2014 the mild rebound in activity expected for the key tube consuming sectors in combination with some restocking in the distribution chain is projected to result in a rise of approximately 3% of EU steel tube output.

Domestic Appliances



- ***2012 output contracts by 2%***
- ***Large country differentials persist***
- ***Subdued demand outlook 2013***
- ***Output forecast to recover in 2014***

Output in the electric domestic appliances industry in the EU decreased by 2.4% y-o-y in the third quarter of 2012.

Preliminary activity data for the final quarter of last year signal a 1% drop in production. Total production of electric domestic appliances in the EU is estimated to have declined by around 2% in 2012.

The overall trend in activity across the EU was mildly negative, country-specific data however reveal marked growth differentials. While output in Italy contracted by 12% in 2012, France and particularly the United Kingdom registered a rise in production. Also output in Sweden grew moderately. Meanwhile, in Central Europe activity increased in Poland and the Czech Republic but decreased in Slovakia.

Weak levels of consumer confidence and reduced activity in the residential property sector – with regards to new housing construction and the sales of existing homes – are the main factors which negatively affect demand for electric domestic appliances in the EU.

Meanwhile, competition in this market has been heating up, with upcoming Asian players such as Samsung, LG and Haier shifting increasingly parts of their white goods production to Europe. Particularly in Central and Eastern Europe, Asian producers have set up production plants, supported by distribution hubs across the whole of Europe.

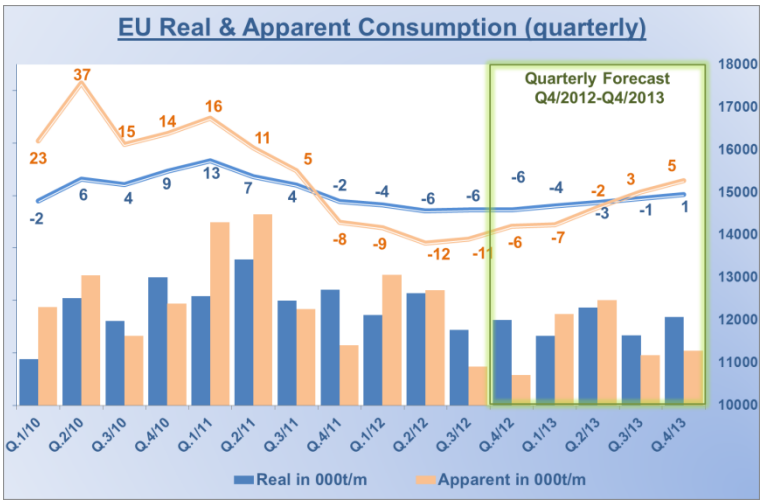
The market for white goods in Europe will remain subdued in 2013, as a consequence of low levels of consumer confidence, financing constraints and the overall depressed outlook for the residential property market in most EU countries. Particularly in Western Europe, the electric domestic appliances market is largely saturated and depending on replacement demand rather than first-time buyers. On balance, output is seen stabilising at the year earlier level.

In 2014, consumer sentiment gaining strength and improving dynamics in the residential property market should be supportive to white goods demand in the EU. Output in the electric domestic appliances sector in the EU is forecast to rise almost 3% in 2014.

Real Consumption

Forecast for real consumption - % change year-on-year

Period	Q112	Q212	Q312	Q412	Year 2012	Q113	Q213	Q313	Q413	Year 2013	Year 2014
	-3.6	-5.8	-5.5	-5.5	-5.1	-4.0	-2.7	-1.1	0.5	-1.8	2.0



- ***Real steel consumption fell by around 5% in 2012***
- ***Weak activity steel users and negative effect steel intensity***
- ***Outlook for 2013 remains bleak***
- ***Real consumption to fall 2%***
- ***2014 prospects signal moderate improvement***

Real steel consumption in the EU fell 5.5% y-o-y in the 3rd quarter of 2012.

A similar decline is estimated for real consumption in the final quarter of last year. All in all, EU real steel consumption contracted by around 5% in the whole of 2012.

The downward trend in real steel consumption largely stems from weakening activity in the steel using industries in the EU.

Another factor dragging down real steel consumption in the EU is steel intensity[1).]

Since several years, steel intensity has a negative effect on final steel demand, reflecting structural improvements in steel grades and processing and design technologies. More recently, these negative effects on consumption are exacerbated by cyclical factors related to the economic slowdown.

The outlook for 2013 is rather bleak. Activity in the steel using sectors in the EU will remain sluggish during the greater part of the year; this will result in depressed real steel consumption levels and the continuation of the negative year-on-year trend in consumption. Only in the final quarter of the year consumption is seen stabilising at the year earlier level. Steel intensity will remain negative. Real steel consumption is forecast to decline almost 2% in 2013.

Prospects for 2014 signal a mild rise in real steel consumption, owing to the expected improvement in activity in the key steel using sectors and less of a drag coming from steel intensity on final steel demand.

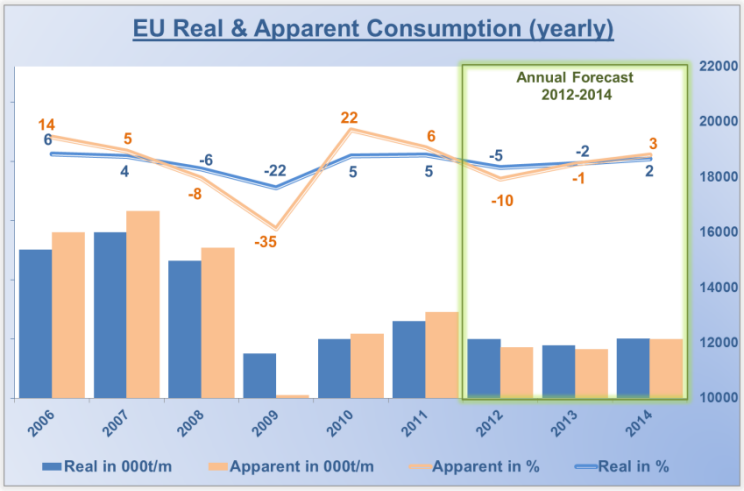
On balance, EU real steel consumption is forecast to rise almost 2% in 2014. This will bring EU consumption back to the 2010- level which is still 15% below consumption in 2005.

1) steel intensity is the ratio of steel consumption to steel weighted production in the steel using industries (SWIP)

Apparent Consumption

Forecast for apparent consumption - % change year-on-year

Period	Q112	Q212	Q312	Q412	Year 2012	Q113	Q213	Q313	Q413	Year 2013	Year 2014
	-8.7	-12.3	-11.0	-6.1	-9.7	-7.0	-1.9	2.5	5.3	-0.7	3.0



EU Apparent Consumption
in million tonnes per annum

2006	192
2007	201
2008	185
2009	121
2010	148
2011	157
2012 (e)	142
2013 (f)	141
2014 (f)	146

- ***Continued sharp reduction apparent consumption H2***
- ***2012 demand declined 9.5%***
- ***Depressed outlook 2013 – short-lived rise in deliveries early 2013***
- ***First signs of recovery late 2013***
- ***Mild improvement demand fundamentals in 2014***

EU apparent steel consumption in Q3-2012 continued to trend downwards, falling by 11% y-o-y. Provisional data for Q4 signal a further contraction in steel demand. For the year as a whole, apparent steel consumption is estimated to have fallen by around 9.7%. Particularly in the second half of 2012, the decline in real steel consumption was compounded by sharp inventory corrections.

Deliveries to the EU market by EU producers fell by around 6% in 2012. Owing to a reduction of almost 28% in third country imports - reflecting sluggish demand and a weak Euro - EU mills managed to gain back some market share lost in 2011.

Prospects for 2013 are bleak. Real steel consumption is forecast to remain subdued for the greater part of the year. Strengthening order intakes in the final months of 2012 confirm the likelihood of a technical restocking in early 2013 to replenish depleted distribution chain inventories.

However, with end-user fundamentals forecast to remain depressed until late 2013, the EU market will continue to lack positive demand-side impulses. This will curb imports but not to the extent seen in 2012.

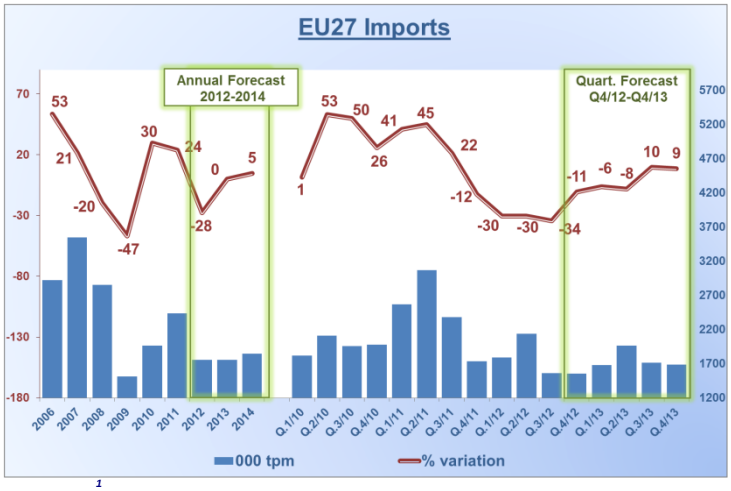
As a consequence, domestic deliveries by EU mills will follow a fairly similar trend as expected for total apparent consumption in the EU.

Some destocking is foreseen for H2-2013, but it will be less pronounced than in the same period of 2012. Towards the end of the year, the first tentative signs of a steel market recovery should become visible.

On balance, apparent steel consumption is expected to decline by almost 1% y-o-y in 2013.

2014 is expected to see a mild improvement in steel market funda-mentals. Real and apparent steel consumption are forecast to rise by 2% respectively 3%, the influence of the stock cycle will be fairly neutral.

Imports

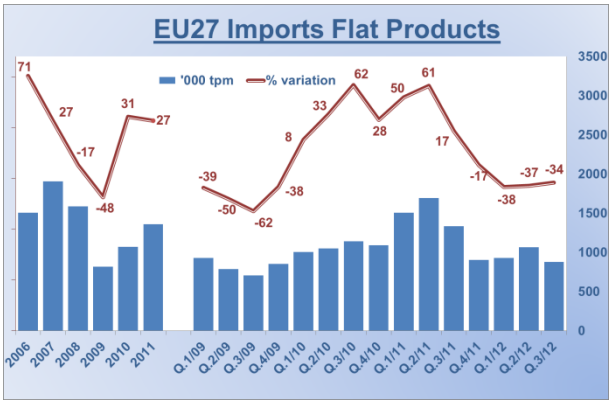


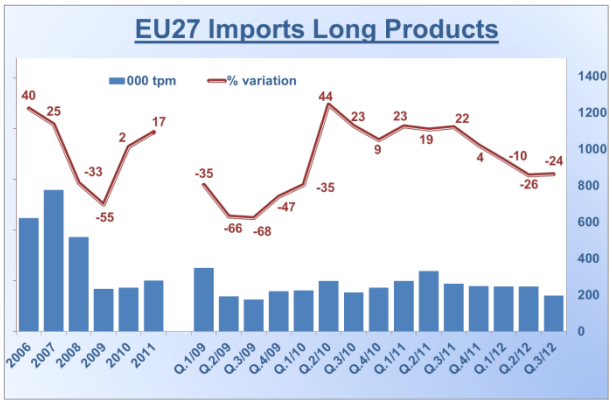
- ***Imports fell 29% y-o-y over 1st 11 months of 2012***
- ***Strongest reduction in flat products imports***
- ***Licenses do not suggest short-term rise in import volumes***
- ***Imports projected to stabilise around the 2012 level in 2013***
- ***Modest increase in 2014***

Total third country imports into the EU continued to decline in the final months of 2012, albeit at a less pronounced rate as registered in the first half of the year. Imports in the October-November period were 7.5% down on the same period of 2011. Total imports over the first 11 months of 2012 decreased 29% y-o-y.

Flat products continued the register the sharpest reduction in import volumes, although the year-on-year decline eased towards the end of last year. Flat product imports fell 35% y-o-y over the first 11 months of 2012. The reduction in long product imports amounted to 17% y-o-y with October and November imports stabilising around the year-earlier level.

At the flat product level, imports of hot-rolled wide strip registered the strongest reduction in 2012, falling by 44% y-o-y over the first 11 months.



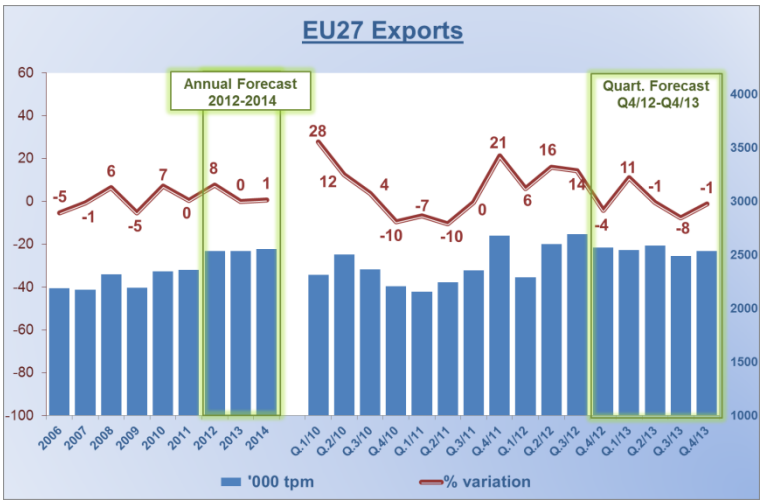


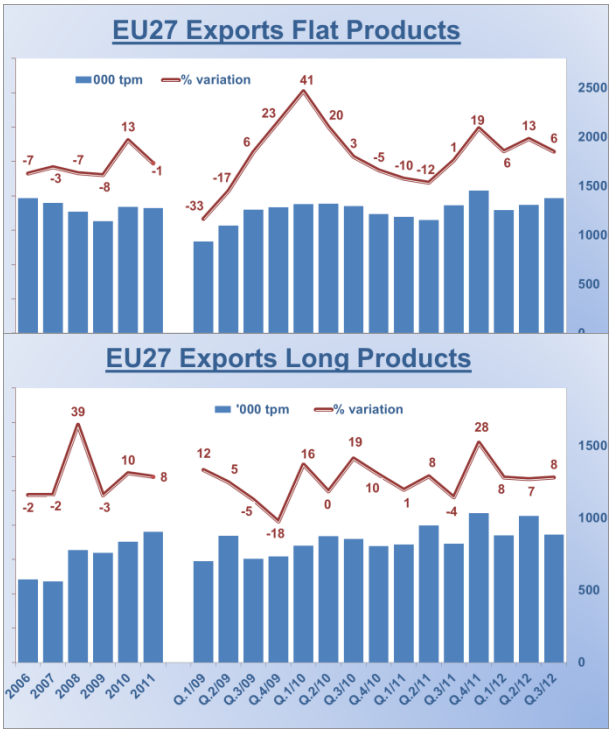
Meanwhile, quarto plate imports fell by only 20%. Merchant bars were the long product showing the most significant reduction in 2012 imports (-28% y-o-y) in contrast with rebar imports which hardly declined compared with 2011.

Imports from Ukraine, Russia and China continued to dominate total imports arriving in the EU, accounting for 63% of total import supply. In the case of Russia and the Ukraine, the largest part of imports consisted of semis, whereas Chinese imports primarily were focused on coated flat product markets. The latest license information shows that license applications were on a mildly falling trend during the 4th quarter of 2012, signalling that imports are most likely to remain at a reduced level in the first months of 2013. Dull prospects for EU apparent steel consumption and the expectation of the Euro not strengthening significantly furhter will set the stage for imports stabilising around the year earlier level in 2013.

Improving steel market fundamentals could result in a moderate increase in imports in 2014

Exports





- ***EU exports rose 11% y-o-y over 1st 11 months of 2012***
- ***EU net exporter in 2012 – main destination Algeria***
- ***Long products dominate, especially rebar***
- ***Exports seen stagnating in 2013***
- ***Marginal rise expected for 2014***

EU steel exports to third countries rose 11% y-o-y over the first 11 months of 2012. The second half of last year was characterised by an acceleration in the rise of semis exports, whereas the increase in flat and long product exports slowed down compared with stronger growth in H1-2012.

The EU remained a net exporter during 2012: over the first 11 months the average monthly trade surplus amounted to 675,000 tonnes. Net trade in flat products was over this period 323,000 tonnes per month whereas net trade in long products amounted to 705,000 tonnes per month. The trade deficit in semis amounted to 353,000 tonnes per month from January to November 2012; the deficit eased somewhat in the second half of the year owing to the increase in semis exports.

Reinforcing bars remained the most widely exported steel product by EU mills, accounting for approximately 60% of total long product exports. Close to 60% of all rebar exports were shipped to Algeria.

Algeria was also the main country of destination for EU exports of wire rod and merchant bar. Turkey was the largest market for sections.

In 2013 exports are expected to stagnate at the 2012 level. The domestic market will remain sluggish. In particular producers of commodity long products for construction applications will try to maximise exports in order to keep production capacity utilisation rates as close as possible to a reasonable level. However, fierce international competition and the stronger Euro will limit any further growth potential on the key export markets.

With a forward view to 2014, total exports are expected to increase only marginally. Although global steel demand fundamentals are expected to improve, rising capacity outside Europe will fuel international competition.

Changes in %	IMPORTS Third Countries	EXPORTS Third Countries	DELIVERIES into EU 27	TOTAL DELIVERIES
Q.1/2012	-30.3	6.1	-5.6	-3.2
Q.2/2012	-30.4	15.9	-8.1	-4.3
Q.3/2012	-34.4	14.3	-7.2	-2.9
FORECAST				
Q.4/2012	-10.5	-4.2	-4.5	-4.2
Year 2012	-27.8	7.6	-6.4	-3.7
Q.1/2013	-6.3	11.1	-6.3	-3.6
Q.2/2013	-8.1	-0.5	-0.1	-0.1
Q.3/2013	9.7	-7.6	3.0	1.1
Q.4/2013	8.6	-1.2	4.8	3.7
Year 2013	0.0	0.0	0.0	0.1
Year 2014	5.0	1.0	3.0	2.6