

## **Economic and Steel Market Outlook 2009-2010**

### **June '09 Report from EUROFER's Economic Committee**

*- based on forecasts actualized up to June 26<sup>th</sup> 2009 -*

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

	Eurofer Forecast June 2009 EU			
	2007	2008	2009 (f)	2010 (f)
<b>GDP</b>	2.7	0.9	-4.5	0.1
<b>Private consumption</b>	1.9	0.6	-1.6	-0.2
<b>Government consumption</b>	1.8	2.1	1.7	1.1
<b>Investment</b>	5.2	0.3	-10.8	-1.9
<b>Investment in mach. equip.</b>	6.8	0.8	-13.6	-2.2
<b>Investment in construction</b>	3.0	0.5	-7.5	-1.3
<b>Exports</b>	5.3	1.4	-15.1	0.9
<b>Imports</b>	5.2	1.6	-12.1	-0.2
<b>Unemployment rate</b>	7.6	7.3	9.3	10.8
<b>Inflation</b>	2.2	3.3	0.8	1.2
<b>Industrial production</b>	3.5	-1.7	-16.4	0.2

(f) = forecast

#### **I. EU Macro-economic overview**

- *Falling exports hit manufacturing sector hard – particularly in Germany*
- *Leading indicators signal the worst may be over...*
- *...but no EU recovery before mid 2010 - uncertainties still large*

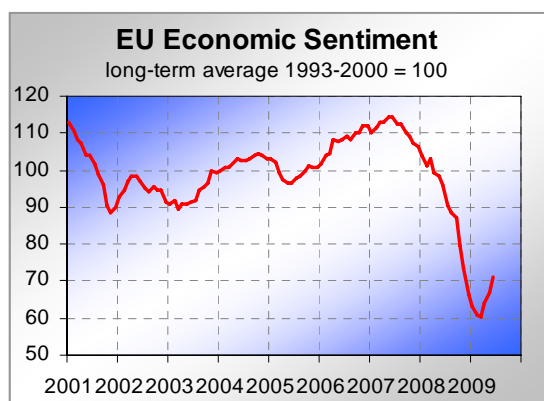
In the first quarter of 2009, economic activity in the EU spiralled further downward, with the quarter-on-quarter contraction in GDP accelerating to 2.4%.

In this phase of the downturn the manufacturing sector in the EU is bearing the brunt of the recession. Through a synchronised collapse of investment in all economic regions of the world and a sharp drop in international trade, business activity in the EU weakened dramatically in recent months. Extreme risk aversion and the difficult financing environment have made the situation worse.

Especially in Germany recession bites hard. EU's largest and most export-oriented economy saw its exports reduced by 19% y-o-y in the 1<sup>st</sup> quarter and GDP falling by 6.9% y-o-y. But also in Italy, Spain and Germany's main trade partners' economic activity deteriorated markedly since late 2008.

Weaker than expected Q1 data resulted in a further downward adjustment of GDP outlook for 2009 to -4.5%; 2010 is currently at best seen stable.

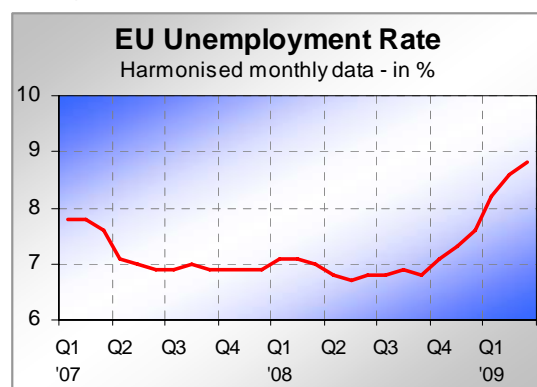
While hard data have so far continued to provide evidence of the EU sinking deeper into recession, recent surveys and leading indicators suggest that the economic downturn could bottom out over the coming months. EU confidence indicators improved during the 2<sup>nd</sup> quarter and the Eurozone purchasing managers' index has been trending mildly upwards again since three months now. Also the OECD leading indicator appears to signal an inflection point in the business cycle in the months ahead.



While confidence is apparently on the mend, actual sentiment levels are still very low; the recent improvement merely underpins that the actual rate of decline of economic activity may be slowing. Any recovery is bound to be tepid and is still surrounded by large uncertainties and mainly downward risks.

A key concern is the fact that the global downturn originates from a financial shock. History learns that it will take much longer for the economy to improve again than under 'normal' recessionary conditions. While stability in the financial sector appears to be returning owing to policy actions of the central banks and governments, banks and other financial institutions are generally speaking still in a poor state.

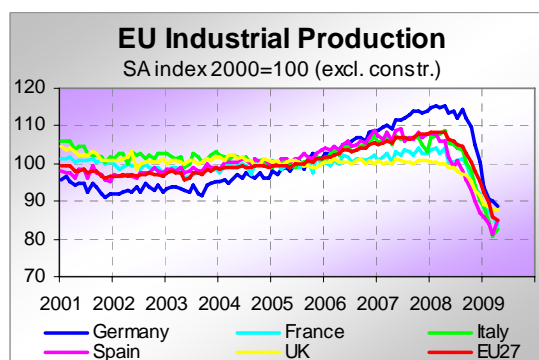
Despite massive liquidity injections in the financial system and continued interest rate cuts leading to all-time lows in interbank lending rates, actual lending to enterprises and households has dropped steeply in recent months. This reflects on the one hand continued risk aversion and still elevated levels of lending standards from the side of the banks and on the other hand a loss of borrowing appetite from the corporate and household sector due to weak confidence levels. Rising unemployment poses another major concern. The unemployment rate in the EU shot up to 8.6% in April coming from 6.8% in April 2008. While this implies that all the improvement in the labour market since late 2005 has been reversed, the worst has probably yet to come. Due to the usual time lag between the business cycle and employment, labour market conditions will deteriorate further in the remainder of 2009 and into 2010. For the time being, companies will continue to align hiring to low capacity utilisation rates.



This will inevitably depress private consumption over the coming quarters. So far household spending has held up relatively well so far; retail sales have only been falling at a moderate rate. However, rising unemployment in combination with falling house prices

will encourage households to save more and spend less. This implies that consumption will continue to act as drag on growth even if international trade and manufacturing activity start to improve.

At this point in time, however, the manufacturing sector is still in shock due to orders for intermediate and capital goods falling off a cliff in the first months of this year. The drop in industrial production accelerated from 12% y-o-y in December 2008 to 19.4% in April this year. A further contraction in output in the second quarter seems inevitable: capital and intermediate goods orders have been falling by 30-35% y-o-y in the first quarter.

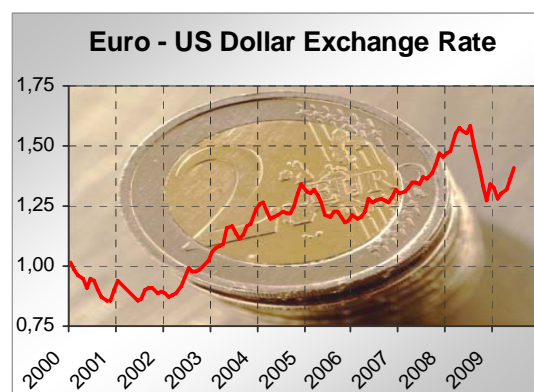


As mentioned earlier, the strong reduction in export demand is weighing heavily on the performance of the manufacturing sector in almost all EU economies. Industrial confidence coming off the bottom owing to slightly less negative assessment of orders and short-term production does not mean that an improvement of the business climate is imminent. For the time being, companies will continue to experience strong headwinds from weak EU and international demand and restricted access to financing.

It will probably take until the final quarter of 2009 before international trade could start to recover again, most

likely driven by a rebound in Asia and the USA.

Meanwhile, the continued strength of the Euro against the dollar in particular but also against other currencies is deterring the much needed improvement in the competitive position of EU companies in markets abroad. However, once the US economy rebounds ahead of the EU chances are that the US dollar could strengthen again versus the Euro; this would help EU firms to benefit more strongly from the expected improvement in international business conditions.



With respect to the competitive position of EU companies another concern has to be raised. On an increasing international scale, governments are rushing to support troubled industries via trade restrictions and other protectionist actions. In contrast, Europe is remarkable by its lack of official government measures blocking free trade. Rather than strengthening the industrial sector, protectionism fosters uneconomic capacity and discourages unsuccessful companies to exit the market, thereby jeopardising market conditions for the global sector. Needless to say this could nip the potential recovery of international export demand later this year in the

bud, thereby endangering level playing field conditions for EU companies.

Among the few positive economic trends since the start of 2009, inflation is worth mentioning. Weak demand has caused inflation to come down from its 2008 peak level. The Eurostat flash estimate for May shows Euro area inflation at 0% coming from 0.6% in April.

Easing inflationary pressures and EU economic activity stuck in paralysis encouraged the European Central Bank to lower the refi rate to 1% in May.

The discretionary fiscal stimulus package announced by the EU member states totals an estimated 1.8% of GDP for 2009-2010. While the measures aimed at stimulating consumer demand – such as the scrapping bonuses for old and polluting passenger cars - are already having a positive effect, other measures will take much longer to feed into demand. Particularly the stimulus from increased spending on infrastructure projects will take a relatively long time to become visible in a rebound in actual order intakes by the construction sector. The normal tendering and other administrative procedures will still have to be obeyed. This means that it will take to late 2009 before additional resources start to feed through into demand and full-scale stimulation will only become visible in the course of 2010.

The June outlook EUROFER's Economic Committee basically confirms the severity and global nature of the current downturn.

The outlook sees investment falling by 10.8% in 2009 followed by a further

1.8% decline in 2010. Private consumption will decrease by 1.6% in 2009; for 2010 a further fall is anticipated. Exports are projected to fall by 14.4% this year, followed a marginal improvement in 2010. The overall effect on industrial production is dramatic: activity will fall by more than 16% in 2009 followed by a low-level stabilisation in 2010.

All in all, GDP will fall by 4.5% in 2009. For 2010 a still negative growth trend in the first half will be balanced by a modest improvement in the second half, resulting in an expectation of zero growth for 2010.

Meanwhile, there are solid reasons to believe that the global economic cycle could be nearing an inflection point. Leading indicators suggest that stability could be returning in the second half of the year, led by improving economic fundamentals in Asia and the US.

For the time being, the EU economy will continue to contract, albeit at a slower pace than it has to date. An export-driven rebound in the EU is not to be expected before mid 2010; moreover, it will be tempered by sluggish domestic demand as the worst for consumer spending has probably yet to come.

### **Macro-economic overview: USA**

- *Sharp decline Q1'09 GDP*
- *Indicators improved in Q2'09*
- *No recovery before Q4'09*

Latest GDP estimates for Q1'09 show a decline of 5.5% (annualised rate) due to continued destocking, a sharp reduction in fixed-business and construction investment and a significant shortfall in government expenditures.

In the course of the 2<sup>nd</sup> quarter however, there has been an array of encouraging economic news.

Consumer confidence and the ISM Purchasing Managers' Index improved steadily over the past few months while more recently also automotive sales and construction spending picked up. Nevertheless, current levels of consumer confidence and other indicators are still low and consistent with recessionary economic conditions. The base case scenario of the downturn gradually bottoming over the coming months still seems plausible. The stimulus package had already a positive impact in recent months but should more strongly come into force in the second half of the year. With inflation kept in check due to weak demand, the Fed's monetary policy will remain supportive to growth for the time being. Following several quarters of destocking, the inventory cycle is expected to be reaching a turning point in the near term. All in all, this will result in GDP growth improving from less negative in Q3 to slightly positive again in Q4'09. On balance, GDP will fall by 3% in 2009.

The improvement in economic conditions will gradually continue into 2010 with growth for the year currently pencilled in at 1-1.5%.

### **Other regions**

- *Japan: persisting weakness*
- *Emerging countries: China in pole position to recover*

Japan's economy shrank 4% in Q1'09, the biggest contraction on record, driven by a sharp inventory correction and falling domestic and export demand. Worsening conditions in the corporate sector – leading to rising unemployment - impacted on household spending. While there are indications that the downturn in industry could be bottoming out, the economic situation will remain depressed until international export demand improves again. GDP is seen falling by 5.5% in 2009, followed by just 0.5-1% growth in 2010.

Improving financial and economic indicators in the emerging countries appear to confirm that the process of economic stabilisation could be gaining traction over the months ahead, most prominently in the Asian region.

China's industrial output rose more than forecast in May and retail sales growth accelerated, giving new impetus to investor hopes the world's third-largest economy could lead a global revival. Policy-driven investment growth and exports gradually improving from their bottom levels are expected to help the Chinese economy recover in the remainder of the year. The World Bank raised its growth forecasts for China this year to 7.2%.

Meanwhile, the outlook for other emergers such as Russia and the Baltics is grim. Russian companies are suffering from a lack of credit; the crisis is being compounded by the economy's past overheating.

The latest forecasts for global GDP in 2009 point to a 2-3% contraction before improving by a similar rate in 2010.

## II. The EU Steel Market

### Overview Steel Using Sectors

**Development of the main steel using sectors – Eurofer forecast June 2009**  
 % change year-on-year in the SWIP (Steel Weighted Industrial Production) index

	Steel Consumption by sectors in %	Q408	Year 2008	Q109	Q209	Q309	Q409	Year 2009	Q110	Q210	Q310	Q410	Year 2010
Construction	27	-5.3	-0.6	-12.4	-8.3	-7.7	-4.6	-8.1	-2.4	-1.0	1.4	1.5	-0.1
Structural steelwork	11	-4.6	-1.8	-21.4	-20.6	-13.1	-6.6	-15.5	-4.3	-2.1	-0.6	0.7	-1.5
Mechanical engineering	14	-6.7	0.7	-21.1	-25.7	-20.1	-15.6	-20.8	-4.9	-0.2	2.0	3.5	0.2
Automotive	16	-27.6	-5.8	-41.7	-34.0	-25.6	-8.5	-29.3	7.1	0.0	0.4	3.9	2.8
Domestic appliances	4	-10.9	-4.4	-15.1	-20.8	-14.8	-10.9	-15.5	-3.7	-2.0	0.5	2.1	-0.8
Shipyards	1	9.7	6.2	-12.1	-28.6	-35.4	-39.6	-29.2	-12.9	-14.3	-11.4	-5.2	-11.1
Tubes	12	-10.1	-0.9	-29.3	-26.3	-17.0	-12.3	-21.9	-1.0	3.0	3.5	5.4	2.8
Metal goods	12	-13.8	-3.3	-26.8	-25.8	-21.5	-11.8	-21.9	-0.5	2.1	3.7	4.2	2.3
Miscellaneous	3	2.4	2.5	-12.4	-20.3	-16.1	-12.7	-15.3	-1.5	0.7	1.4	2.0	0.6
<b>TOTAL</b>	<b>100</b>	<b>-10.4</b>	<b>-1.8</b>	<b>-23.9</b>	<b>-22.0</b>	<b>-16.5</b>	<b>-9.7</b>	<b>-18.2</b>	<b>-1.5</b>	<b>-0.2</b>	<b>1.5</b>	<b>2.7</b>	<b>0.7</b>

- **Activity EU steel using sectors falls off a cliff**
- **2010 stable at a very low level**

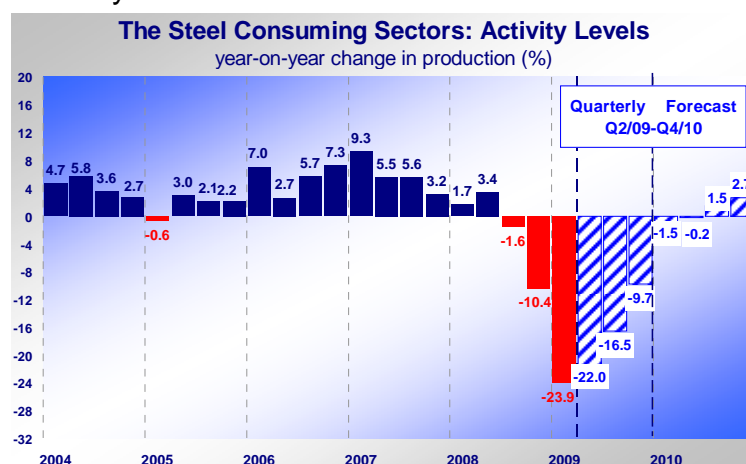
Activity in the steel using sectors in the EU fell off a cliff in the 1<sup>st</sup> quarter of this year following an already marked contraction in Q4'08. The latest data for the key sectors show total (steel-weighted) output falling by almost 24% y-o-y via a synchronised drop in domestic and international export demand for investment and intermediate goods which was exacerbated by severe destocking, credit lines drying up and bottom-low confidence levels.

The nose-dive in order intakes since early 2009 resulted in order books shrinking to levels which imply strongly reduced capacity utilisation rates across most sectors for the remainder of the year. April orders for capital goods fell 40% y-o-y, after having been slightly less negative in March. It is still too early to see whether the trough in

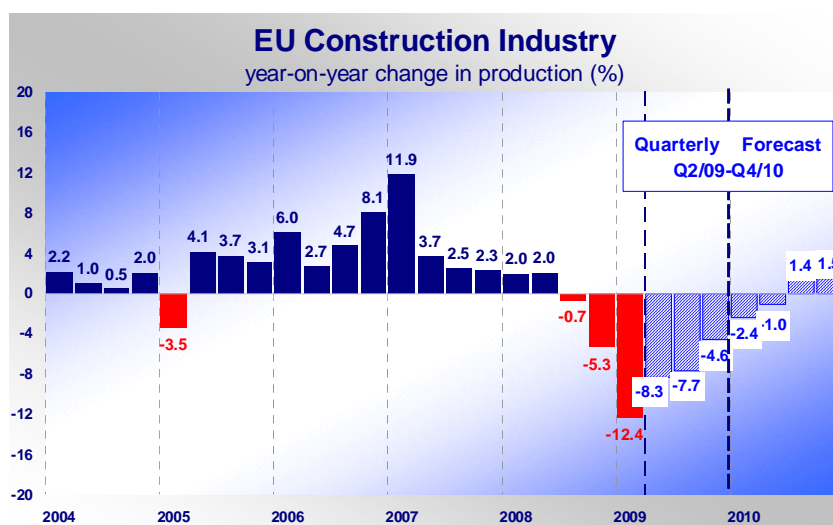
orders and output has been reached in the course of Q2'09.

The forecast for Q2 is for a similar reduction in activity in the steel using sectors as registered in the 1<sup>st</sup> quarter. The fall in output in Q3 is projected to be only slightly less negative, with a further relative easing expected for Q4'09.

On balance, this leads to a very bleak outlook for 2009 with total output in the steel using sectors more than 18% down on 2008 and a stabilisation at a very low level in 2010.



## Construction



- **Sharply weaker construction activity at the start of 2009**
- **Civil engineering benefits from increased public investment**

In the 1<sup>st</sup> quarter EU construction output was – in line with previous projections – 12.4% down on the same period of 2008. Particularly residential and non-residential activity was significantly lower than a year ago. The current lack of financing and weak confidence levels have led to private commercial and industrial projects being postponed or cancelled whereas the housing market is suffering from a reduction in demand, falling prices and stricter mortgage approval procedures. Since March this year construction confidence is stabilising at a low level, suggesting that the rate of year-on-year declines in output in all construction sectors could be slowing down in the months ahead.

Meanwhile, the construction market segment least affected by the economic downturn is civil engineering. In most countries, public construction investment is expected to increase significantly in 2009 and especially in 2010. However, normal tendering and

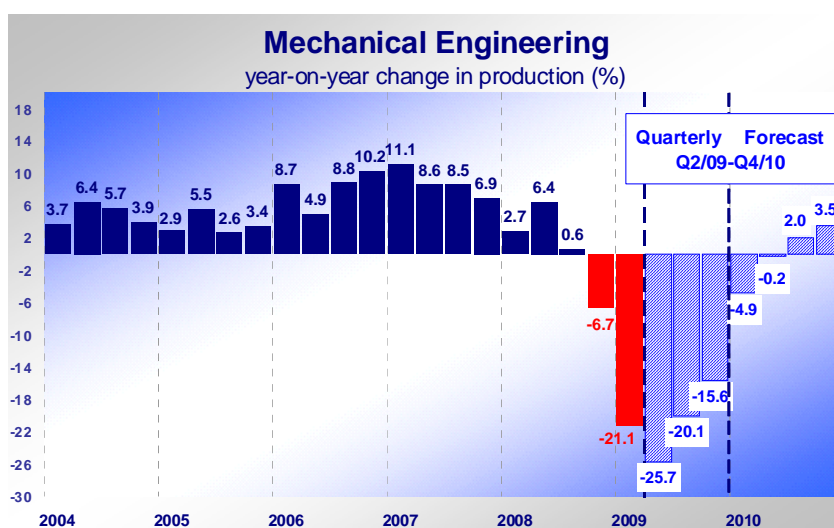
other administrative procedures will still apply. This means that it will take to late 2009 before additional resources start to feed through into demand and full-scale stimulation will only become visible in the course of 2010. Moreover, growth in public construction investment will not be sufficient to offset the fall in private housing and commercial building investment.

So far Spain remained the most badly affected construction market in the EU due to the complete collapse of the residential building market; a recovery is not foreseen before 2011.

However, also Sweden appears to be heading for a serious construction sector correction in the current year following boom conditions in the housing sector. For several years demand outpaced supply of new dwellings owing to an uncompetitive construction industry, coupled with cumbersome planning regulations and few incentives for municipalities to issue more land.

The latest forecasts confirm a sluggish EU construction market in 2009 and 2010 with output registering negative y-o-y growth up to mid 2010.

## Mechanical Engineering



- **Mechanical engineering severely impacted by the recession**
- **No recovery before mid 2010**

It is in particular the mechanical engineering industry that is bearing the brunt of the global recession and financial crisis. The strength of the global business cycle in 2006-2007 had created boom conditions for the engineering sector in Europe with its specialisation in high-end and tailor-made machinery and components which lasted until into the 3<sup>rd</sup> quarter of last year. Since then, the industry has been shaken in an unprecedented way due to the synchronised collapse in domestic EU and international export demand.

The y-o-y drop in output in mechanical engineering activity accelerated from 6.7% in Q4'08 to 21.1% in the 1<sup>st</sup> quarter of this year. All countries in the EU registered double-digit year-on-year declines in this period.

Recent data on orders for capital goods do not signal that an improvement or even a stabilisation is imminent.

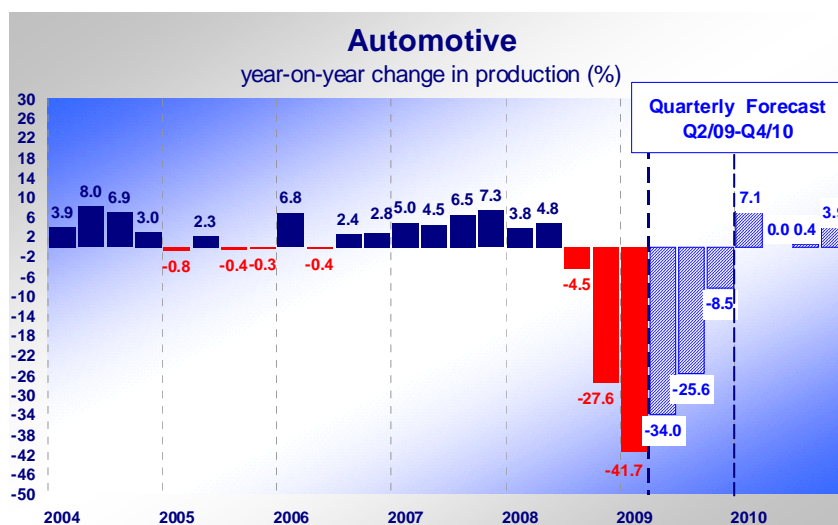
In Germany, new orders declined 44% y-o-y in the 1<sup>st</sup> quarter and even by 60% in April. Export financing has become extremely difficult for this sector in which small and medium-sized privately-owned enterprises dominate.

Due to the extremely sharp reduction in orders intakes overall order books have been reduced in recent months to the bare minimum and consequently capacity utilisation rates have gone down substantially.

The outlook for the remainder of 2009 is indeed very grim: the decline in output in Q2'09 is projected to be even stronger than in the 1<sup>st</sup> quarter. The second half of 2009 is to remain extremely weak. On balance, total output is forecast to decrease by almost 21% in 2009.

The trend in activity is seen remaining negative in the first quarter of 2010, although the y-o-y decline will be much more moderate. From mid 2010 onwards, output could start to improve again. On average, output in 2010 will stabilise at the extremely depressed level of 2009.

## Automotive



- **Scrapping schemes limits drop in demand in early 2009**
- **Commercial vehicle market extremely weak**
- **EU output drops 30% in 2009**

In the first 5 months of 2009 EU car sales declined 13.7% y-o-y. Germany was the only large market which registered positive growth, reflecting that the scrapping incentives aimed at stimulating car owners to exchange their old car for a new, more fuel efficient model are really working. Other EU countries with a similar scheme have seen relatively mild y-o-y reductions in sales so far this year. Meanwhile, the car market in Spain, the UK and Central Europe remained extremely weak.

Commercial vehicle sales fell by 37.4% y-o-y in the January-May period with particularly demand for heavy trucks in Central Europe badly affected.

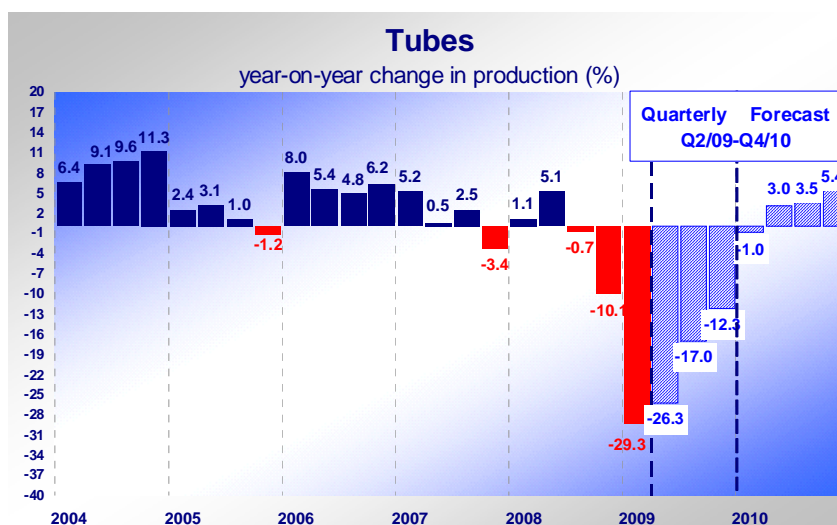
Automotive production has declined dramatically in the 1<sup>st</sup> quarter of this year – falling by 41.7% y-o-y – as the OEMs drastically scaled back the number of shifts or closed down production lines to balance output with weak demand and to reduce too high stocks of unsold vehicles. The cuts in

output have been sending shockwaves through the tiers of the automotive supply chain.

The outlook for the remainder of 2009 and 2010 remains depressed. For the time being passenger car demand will continue to be stimulated via government scrapping schemes and manufacturer incentives. The main effect will be that the sales cycle is being advanced, with a negative effect on growth of sales and output in 2010. Nevertheless, it will enable producers to further reduce their stock overhang and result in a less sharp reduction in output later this year. Meanwhile, the risk of consumer retrenchment looms large and sets the stage for a weak demand outlook for passenger cars in the coming quarters. The market situation in the commercial vehicle segment is even worse: weak confidence, financing restrictions and significant fleet renewal in recent years will dampen demand.

EU automotive production is expected to fall by almost 30% in 2009. For 2010 some 3% growth is currently pencilled in, basically driven by a resumption of car production in France and Poland.

## Tubes



- **Q1'09 output plummets due to weak demand and destocking**
- **Modest recovery in 2010 driven by stock building**

The downward trend in steel tube demand in the EU accelerated markedly from early 2009 on a par with sharply falling activity in the key steel tube using industries. Moreover, most players in the tube distribution and processing chain had started the year seriously overstocked. Restricted access to credit and liquidity problems amplified the need for inventory cuts and led to a massive drop in orders. Total steel tube output declined 29% y-o-y in the first quarter of 2009.

The business situation in the 2<sup>nd</sup> quarter probably remained equally weak as output in the main client industries again declined substantially compared with the same period of 2008. Weak downstream activity is slowing down the process of stock reduction.

For all tube market segments, the outlook for the remainder of 2009 is bleak. A rebound in small welded tube

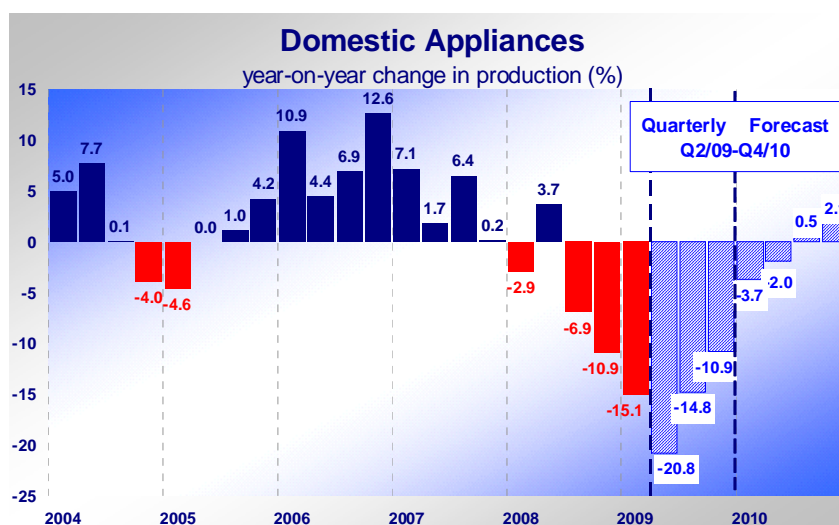
demand is not expected this year; inventories still need to be trimmed down further to align demand and supply more closely.

The energy market will also remain dull as long as the global economy and consequently demand for oil and natural gas is under downward pressure. Global drilling and exploration activity is reported to be weak; this will reduce OCTG demand. The financial crisis has made it harder and more expensive for pipeline operators to raise cash to build new pipeline projects.

For the time being there are still some pockets of strength which are mainly related to renewable energy solutions and urban modernisation projects.

All in all, the reduction in tube output in the 2<sup>nd</sup> half of 2009 will continue at a two-digit rate, resulting in a drop in production of almost 22% in the whole of the year. The outlook for 2010 is for a slight improvement in business conditions during the year owing to the need for restocking; total output is seen rising by 3%.

## Domestic Appliances



- **Sharp drop in demand for domestic appliances as consumer holds back**
- **No recovery before mid 2010**

Business conditions in the EU electrical domestic appliances market have deteriorated further in the first half of 2009 due to the combination of weak consumer confidence, credit restrictions and sharply falling new residential construction activity across most EU member states. In addition, EU residential property markets are currently registering strong downward pressure on the price level of existing houses due to ample supply and stricter mortgage approval procedures. Consequently, demand for electrical domestic appliances declined substantially.

Output of electrical domestic appliances fell 15% y-o-y in the first quarter; estimates for the second quarter show a further contraction by close to 21% y-o-y.

The outlook for the remainder of 2009 is for continued sluggish demand as there are no signs whatsoever of a short-term improvement in the housing markets or consumer sentiment. On the contrary, sharper consumer retrenchment due to the rising trend in unemployment and a higher savings rate can be seen as a key risk for this sector.

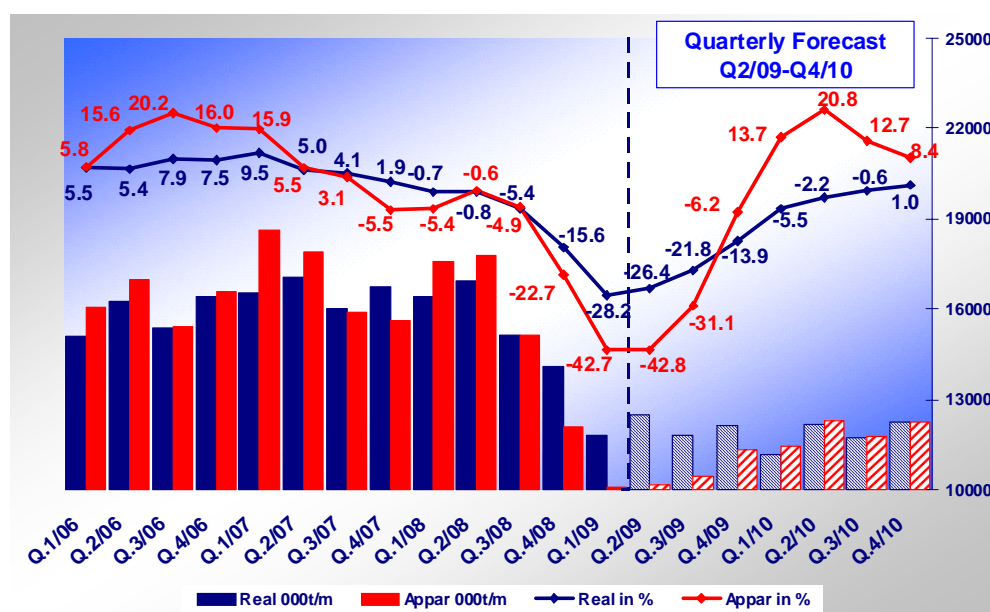
In the whole of 2009, output is projected to decrease by more than 15%, following already a marked drop in activity in 2008.

The current outlook sees the fall in production bottoming out around mid 2010; the second half of next year could register very modest growth rates again. The Central European countries are better positioned to benefit from a rebound given the recent expansion of capacity in this region and their advantage in terms of labour costs and availability of skilled workforce.

## Real Consumption

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

Period	Q408	Year 2008	Q109	Q209	Q309	Q409	Year 2009	Q110	Q210	Q310	Q410	Year 2010
	-15.6	-5.6	-28.2	-26.4	-21.8	-13.9	-22.9	-5.5	-2.2	-0.6	1.0	-1.8



- **Real steel consumption plummets due to end-use activity falling off a cliff**
- **No rebound before Q4 2010**

EU real steel consumption plummeted by 28.2% y-o-y in the 1<sup>st</sup> quarter of 2009 due to end-use activity falling off a cliff. The registered rate of decline is clearly unprecedented and exceeds previous estimates. It underpins that predominantly the steel using sectors in the EU are bearing the brunt of the current investment-led recession and the financial crisis.

First estimates for the 2<sup>nd</sup> quarter show the continuation of extremely difficult business conditions and a similarly dramatic year-on-year decline in real steel consumption.

The outlook for the remainder of the year suggests that while the largest

year-on-year contractions may be over, the downward trend in consumption will persist. All in all, real steel consumption is projected to decrease by almost 23% in the current year.

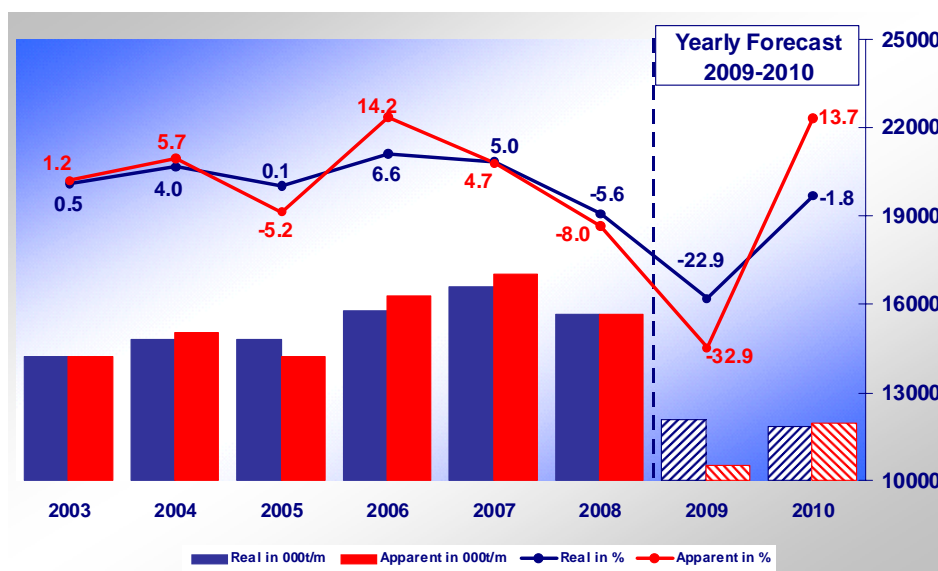
The latest forecasts from EUROFER's Economic Committee for the evolution of activity in the steel using industries indicate that it will take to the final quarter of 2010 for the year-on-year drop in real consumption to bottom out. However, compared to the extremely sharp reduction in 2009, the rate of decline expected for next year will be relatively mild.

On balance, real steel consumption will decline by almost 2% in 2010. Investment becoming less steel-intensive will result in real consumption falling more sharply than end-use activity for the time being.

## Apparent Consumption

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

Period	Q408	Year 2008	Q109	Q209	Q309	Q409	Year 2009	Q110	Q210	Q310	Q410	Year 2010
	-22.7	-8.0	-42.7	-42.8	-31.1	-6.2	-32.9	13.7	20.8	12.7	8.4	13.7



- **Apparent consumption in free fall in 1<sup>st</sup> half 2009**
- **Stock cycle drives 2010 growth**

In the 1st quarter of 2009, apparent steel consumption declined by almost 43% y-o-y due to the nose-dive in real steel consumption and continued destocking in the distribution chain and at end-users.

First estimates for the 2<sup>nd</sup> quarter indicate that the pace of decline in apparent consumption did not ease. Steel market fundamentals remained extremely volatile due to continued weak final demand slowing down the necessary process of inventory correction, difficult financing conditions and risk aversion. Customers have been sitting on their hands since the start of the year, with the shortened lead times enabling them to order selectively the volumes and qualities they require.

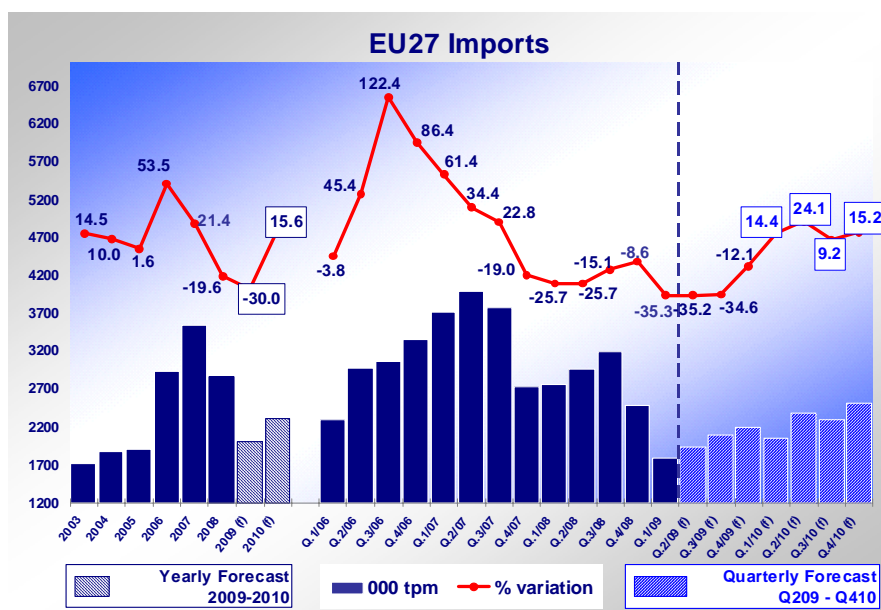
Import supply decreased by 35% in the first quarter of year. As a result, actual

volumes of third country imports have fallen below the extremely high levels registered over the past 3 years. Meanwhile, the drop in domestic deliveries has been much sharper and as a result, imports are still taking a significant share of the strongly reduced EU market.

The latest forecasts from EUROFER's Economic Committee signal that destocking and weak real consumption will continue to depress apparent consumption in the 3<sup>rd</sup> quarter. However, the negative effect of the stock cycle will start to ease from the 4<sup>th</sup> quarter onwards as the market is expected to be nearing a low-level equilibrium by then. On average, apparent consumption will fall by almost 33% in 2009.

In 2010, the stock cycle reversing to slightly positive will result in apparent consumption growing by almost 14%.

## Imports



- **Imports fell 35% y-o-y in Q1'09**
- **Imports projected to decline by 30% in 2009**
- **Imports rising again by 15-16% in 2010**

Strongly weakened demand in the EU and downward price pressure have reduced the attractiveness of the European market for most third country suppliers since the start of this year. The latest customs data show third country imports into the EU around 35% below the corresponding levels of last year.

Particularly imports from China are well below the levels registered in the preceding years. However, other countries such as Russia, Ukraine, South Korea and others have kept their presence on the EU market or even increased imports for specific products since the start of the year.

This has resulted in the share of imports into the EU27 remaining at a relatively high level, notably for most flat products.

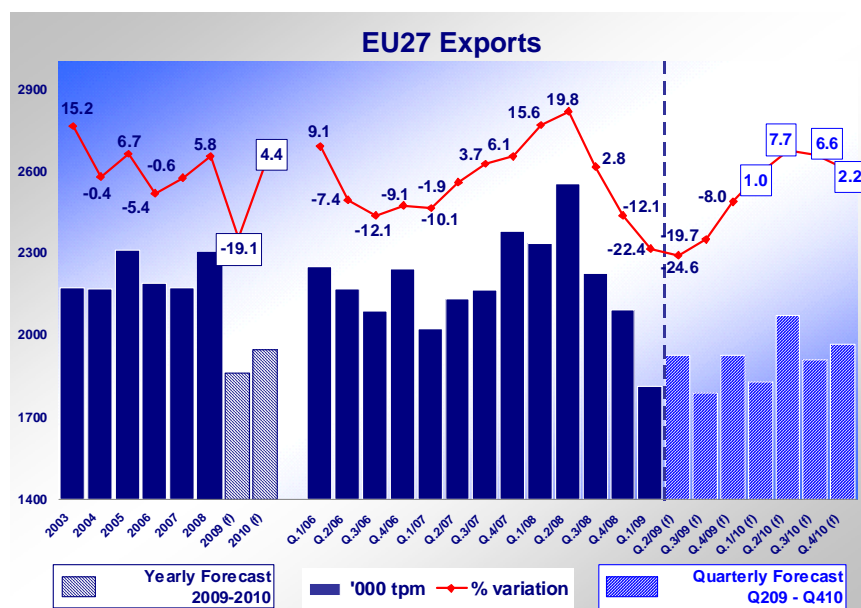
The outlook for the second half of 2009 is for a continued reduction in import volumes and the rate of decline being more in line with the projected trend in EU domestic deliveries.

On average, total third country imports are forecast to fall by 30% in the whole of 2009.

The outlook for 2010 is for imports rising again by 15-16%, more or less in line with the expected rebound in apparent consumption.

A downward risk for the open EU market is the flood of protectionist measures adopted worldwide, aimed at the protection of national steel industries.

## Exports



- **Q1'09 exports drop 23% y-o-y**
- **Slight recovery in exports in 2010**

In the 1<sup>st</sup> quarter of 2009, export deliveries by EU27 mills to third countries fell by almost 23%, following a close to 6% rise in the preceding year.

Due to the synchronised downturn in global industrial production since late 2008, global steel demand fundamentals worsened significantly with a negative effect on international steel trade.

In addition, trade actions have resulted in markets effectively being closed for some products and others becoming

increasingly commercially unattractive. Nevertheless, some regions such as North Africa and the Middle East have remained a potential outlet for EU producers, especially for construction related products.

Exports are projected to fall by 19% this year, in line with the April outlook. This will reduce EU exports – which have been remarkably stable over the past years – to a level lastly registered in 2002.

Prospects for 2010 are for a mild improvement in international market conditions. EU exports are projected to increase by just over 4%.

Changes in %	IMPORTS Third Countries	EXPORTS Third Countries	COMMUNITY DELIVERIES OF EU PRODUCERS
Q.IV/2008	-8.6	-12.1	-24.5
Year 2008	-19.6	5.8	-4.3
Q.I/2009	-35.3	-22.4	-43.0

### FORECAST

Q.II/2009	-35.2	-24.6	-44.5
Q.III/2009	-34.6	-19.7	-30.4
Q.IV/2009	-12.1	-8.0	-3.9
Year 2009	-30.0	-19.1	-33.1
Q.I/2010	14.4	1.0	14.5
Q.II/2010	24.1	7.7	20.8
Q.III/2010	9.2	6.6	14.6
Q.IV/2010	15.2	2.2	8.4
Year 2010	15.6	4.4	14.4

