

**DIRECTORATE FOR SCIENCE, TECHNOLOGY AND INDUSTRY
STEEL COMMITTEE**

INDIA

NAFTA REGION – ECONOMIC AND STEEL MARKET CONDITIONS AND OUTLOOK

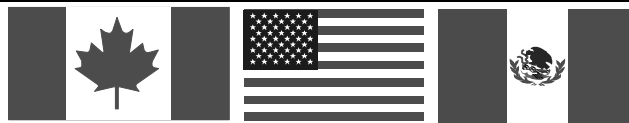
Joint India/OECD/IISI Workshop, New Delhi (India), 16-17 May 2006

Paper submitted by NAFTA.

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NAFTA Region – Economic and Steel Market Conditions and Outlook

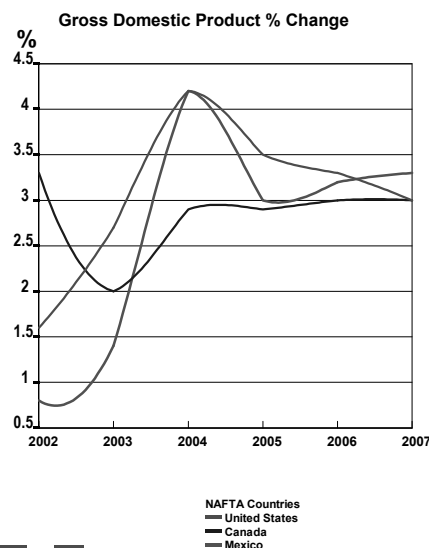
OECD Steel Workshop
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I. Economic Conditions and Outlook in the Three NAFTA Countries



General Economic Situation

As the largest economy by far in the NAFTA region, the U.S. tends to drive the North American market. U.S. GDP growth was good in 2005, following a strong 2004. In 2006 and 2007, the U.S. economy will moderate. Canadian economic growth will maintain a level growth rate of 3%, while growth in Mexico through the forecast period will rise slightly, following a decline in growth in 2005. All three economies are predicted to register GDP growth of 3.0%-3.3% in 2006-2007.



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Economic Analysis & Trends

United States

Notwithstanding the negative impacts of hurricanes Katrina and Rita on Q4 2005 GDP, overall economic growth in 2005 was 3.5%. For 2006 and 2007, respectively, GDP growth is expected to cool to 3.3 and 3.0%. While the economy will see continued strong business profits, high demand for capital goods, a recovery in industrial construction and stability in industrial machinery, it will also see rising oil prices, tighter consumer spending, a slowdown in residential construction and a slight cooling of light vehicle sales.

Canada

Thanks to a levelling off of the Canadian dollar, higher exports, a growing U.S. economy and continued strength in consumer spending, business investment, spending on machinery and equipment, non-residential building construction and energy-related investment, GDP (which grew by 2.9% in 2005) is expected to grow by 3.0% both this year and in 2007. While the economy overall should see rising employment and real income growth, it is expected that steel-intensive manufacturing will remain weak, residential construction will slow and vehicle sales and production will be flat.

Mexico

During 2005, due to slowing growth in the industrial/manufacturing, construction and agricultural sectors, GDP growth was only 3%, down from 4.2% in 2004, as the economy continued to be driven by services and the domestic market, not the industrial sector and exports. Owing to macroeconomic stability (including a stable peso and low inflation), a strong U.S. economy and increased agricultural and industrial (especially automotive) activity, election-related public spending, energy (PEMEX) investments, jobs creation and credit lending, GDP growth is expected to rise moderately to 3.2 and 3.3%, respectively, in 2006 and 2007.



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Economic Indicators

ECONOMIC INDICATORS (% Change in Real Terms)	2002	2003	2004	2005	2006 (e)	2007 (f)
Gross Domestic Product (Weight AVE)	1.7	2.5	4.1	3.4	3.3	3.0
United States	1.6	2.7	4.2	3.5	3.3	3.0
Canada	3.3	2.0	2.9	2.9	3.0	3.0
Mexico	0.8	1.4	4.2	3.0	3.2	3.3
Imports (Weight AVE)	3.0	4.3	10.5	6.3	5.9	4.4
United States	3.4	4.6	10.7	6.2	6.2	4.5
Canada	0.6	3.8	8.1	7.1	3.6	3.3
Mexico	1.5	0.7	10.2	7.0	4.2	4.3
Consumption - Private (Weight AVE)	2.7	2.9	4.0	3.7	3.4	2.9
United States	2.7	2.9	3.9	3.6	3.4	2.6
Canada	3.4	3.1	3.4	3.9	3.0	3.0
Mexico	1.6	2.3	5.5	5.3	4.3	6.5
Investment - Equipmt/Machinery (Weight AVE)	-6.9	0.4	4.0	7.3	6.8	4.1
United States	-7.7	0.3	3.4	6.8	6.8	3.9
Canada	-3.2	4.5	9.8	10.4	8.6	6.3
Mexico	-2.2	-2.4	4.6	9.7	4.8	3.7
Investment - Construction (Weight AVE)	-16.1	-3.9	4.0	2.7	7.6	7.8
United States	-17.1	-4.2	2.2	1.9	8.0	8.3
Canada	-10.4	1.0	0.8	7.0	6.8	4.5
Mexico	-10.8	-6.2	28.8	7.9	4.0	4.8
Exports (Weight AVE)	-1.8	1.5	8.4	6.3	6.0	8.0
United States	-2.3	1.8	8.4	6.7	6.3	8.6
Canada	-0.1	-2.4	5.0	2.7	3.0	3.0
Mexico	1.6	2.7	11.5	5.3	5.9	6.4
Consumer Prices (Weight AVE)	1.9	2.5	2.8	3.4	2.8	2.3
United States	1.6	2.3	2.7	3.4	2.8	2.2
Canada	2.2	2.8	1.8	2.4	2.5	2.0
Mexico	5.0	4.5	4.7	4.0	3.6	3.7
Unemployment % (Weight AVE)	5.7	5.9	5.5	5.1	5.0	5.0
United States	5.8	6.0	5.5	5.1	5.0	5.0
Canada	7.6	7.6	7.2	6.7	6.6	6.6
Mexico	2.7	3.2	3.7	4.0	3.8	3.8



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II. NAFTA Steel Market Conditions and Outlook



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2005 was not as strong as 2004, but was another good year for the NAFTA steel market.

	<u>USA</u>		<u>Canada</u>		<u>Mexico</u>			
	Million Mt	% Change	Million Mt	% Change	Million Mt	% Change		
Crude Steel	115.8	-9.3	Crude Steel	18.0	-6.7	Crude Steel	22.4	0.5
Finished	103.5	-10.0	Finished	16.2	-6.8	Finished	16.1	0.5
Exports	8.6		Exports	6.9		Exports	2.2	
Imports	22.6		Imports	4.9		Imports	3.7	

Survey of the Short Range Outlook Spring 2006 NAFTA Region



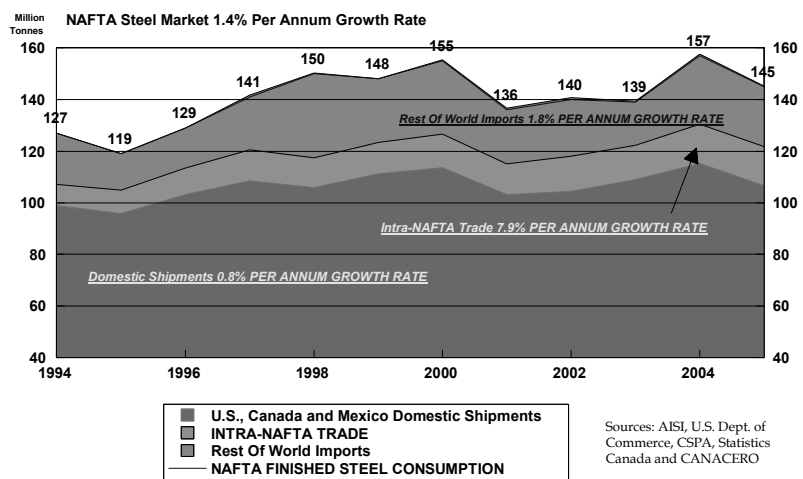
Apparent Steel Use (million metric tonnes)

	2002	2003	2004	2005 (e)	2006 (f)	2007 (f)
Crude Steel	155.8	146.4	169.4	156.2	168.2	172.6
Finished Steel	134.4	130.2	149.0	135.8	142.6	145.0



NAFTA APPARENT FINISHED STEEL CONSUMPTION*

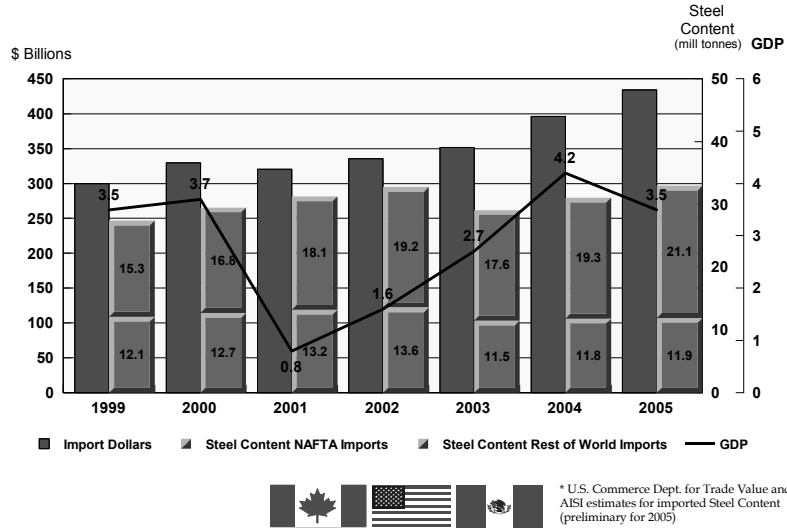
Contributions by NAFTA and Import Sources - 1994-2005



Growth in Indirect Steel Imports vs GDP

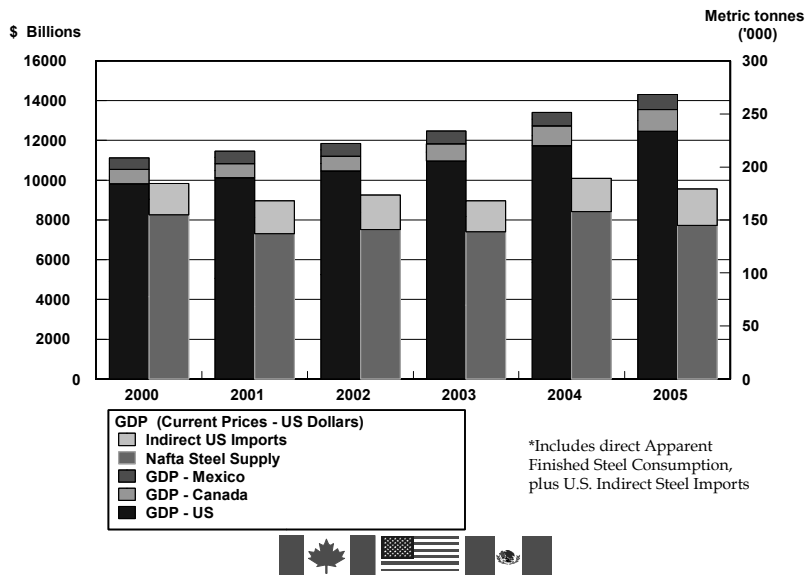
(Data for US only)

Indirect Steel Trade - Trade Value and Steel Content*



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Comparison of Total NAFTA Steel Consumption* vs GDP Growth 2000-2005



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III. Main Risks to NAFTA Outlook and Key NAFTA-Wide Policy Concerns



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Main Risks to NAFTA Market Outlook

- Trade-Distorting Practices: government subsidies, other government interventions in steel and raw material markets, Asian currency manipulation;
- Asian Over-Production of Steel and Steel-Containing Products: possible “spillover” effects to NAFTA/other Western markets;
- Surge of NAFTA Steel Imports: vs. strength of “real steel use.”
- Global Risks: structural trade and financial imbalances, high oil prices, flu pandemic, geopolitical unrest;
- NAFTA: upside risks greater than downside risks?;
- USA: record “twin deficits,” Federal Reserve tightening to attack sources of inflation outside its influence, housing market problems, higher savings, fewer home equity loans, less consumer spending, potential for economic growth slowdown in 2H;



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Key Policy Concerns for NAFTA Steel Industries

- Potential for significant world steel overcapacity; many new capacity additions are state-supported and not market-based
- Continued inappropriate market interventions by foreign governments in both steel and raw material markets
- Increase in “footloose” and injurious foreign steel entering NAFTA steel markets via unfair trade
- Raw material and energy cost shocks
 - Direct cost impacts to NAFTA industries
 - Potential GDP and steel demand impacts
- “Flight” offshore/diminishing of steel-consuming industries (reflected in huge and growing “indirect” steel trade deficits)
- Lack of “appetite” for steel capacity investment in North America

