



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

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INDIA

THE EUROPEAN STEEL MARKET SITUATION

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

Presentation by Mr. Gordon Moffat, Director, Eurofer, European Confederation of Iron & Steel Industries.

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OECD/IISI Workshop on steel
New Delhi, 16th May 2006

The European Steel Market Situation

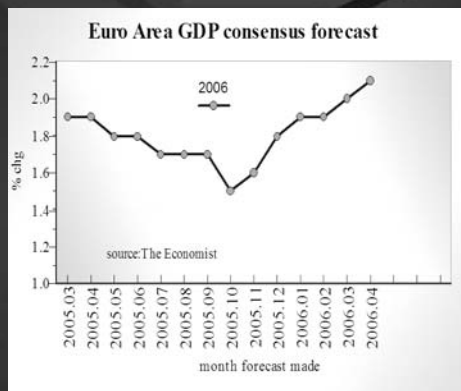
Gordon Moffat
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The macro-economic situation

Encouraging signs in the EU



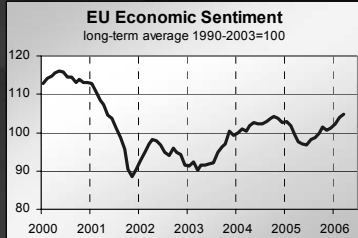
- Main driving forces EU growth: global economy and improved outlook for capital spending
- Economic growth supported by exports and domestic demand
- Continued strong economic activity new member states
- EU GDP growth seen accelerating from 1.4% to 2.2% in 2006

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The macro-economic situation

EU recovery is gathering pace



- Confidence levels are surging in the EU.....
- ...not in the least owing to much strengthened confidence levels in Germany
- Business conditions are improving with order intakes and industrial activity rising
- Positive spin-off to Germany's trade partners
- EU GDP growth gets stronger support from domestic demand
- New accession countries continue to show strength
- EU GDP growth seen accelerating from 1.4% to 2.2% in 2006

The macro-economic situation

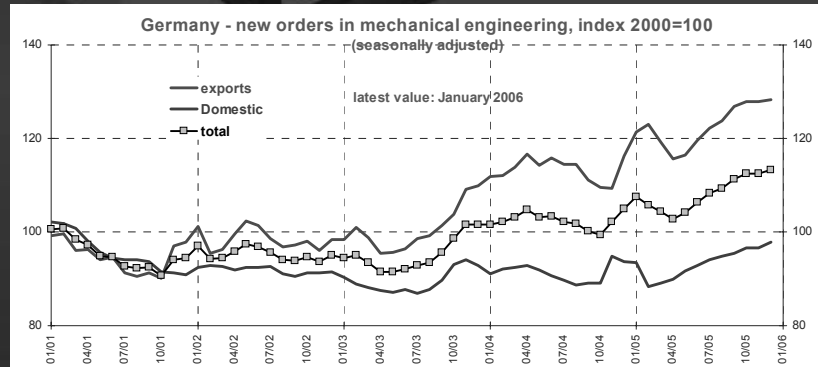
Germany in the driving seat again in 2006.....



Engineering – orders

- Strong growth due to exports dynamism.
- Domestic demand is also recovering

	Domestic	exports	total
2005	1,1%	9,1%	5,5%
2006 vtd	12,5%	6,4%	8,8%



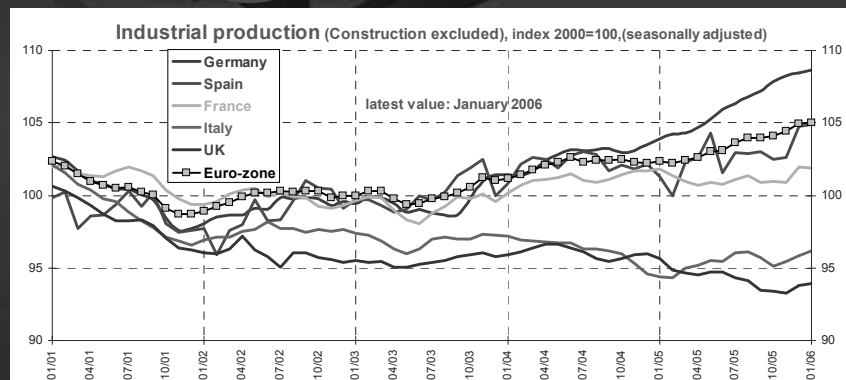
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Industrial production

- Germany performed better ...

	Germany	Spain	France	Italy	UK	Euro-zone
2005	3,4%	0,2%	0,0%	-1,0%	-1,9%	1,2%
2006 vtd	4,0%	5,9%	0,1%	2,0%	-1,3%	NA



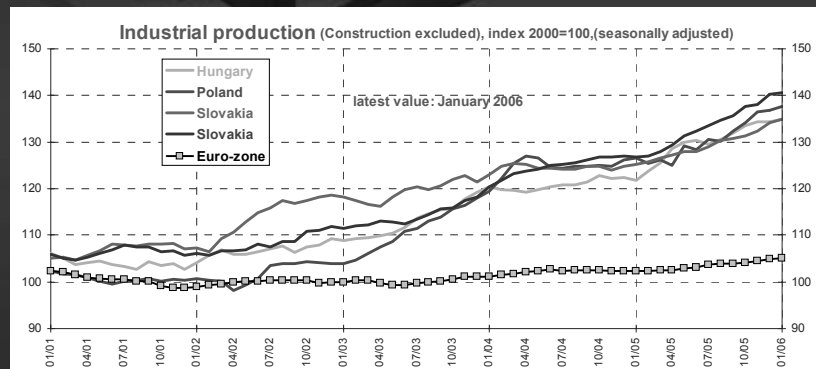
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Industrial production

- Strong growth in new 10 EU members

	Hungary	Poland	Slovakia	Czech Rep.
2005	7,5%	4,6%	3,8%	6,6%
2006 ytd	NA	6,2%	6,9%	12,4%



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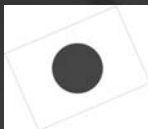
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The macro-economic situation

Global upswing well-established



- US rebound on track owing to gains in consumer spending and continued strength in construction
- US economic growth 3-3.5% this year



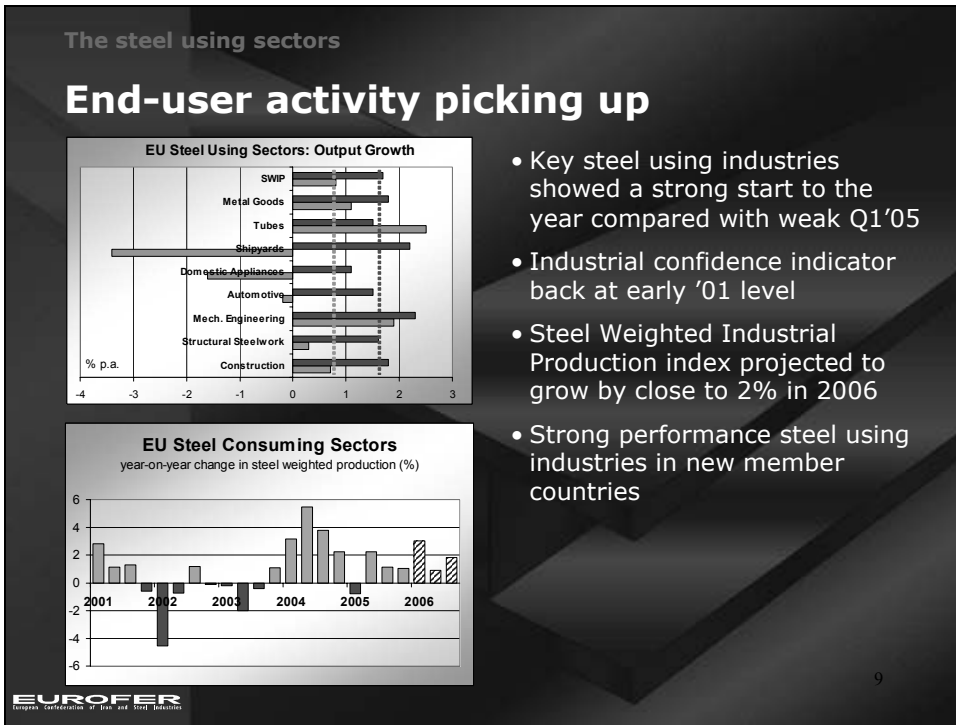
- In Japan, the corporate recovery is on track...
- ...firms are investing to ease capacity constraints
- ...the tightening labour market is boosting consumer confidence, leading to strong domestic demand



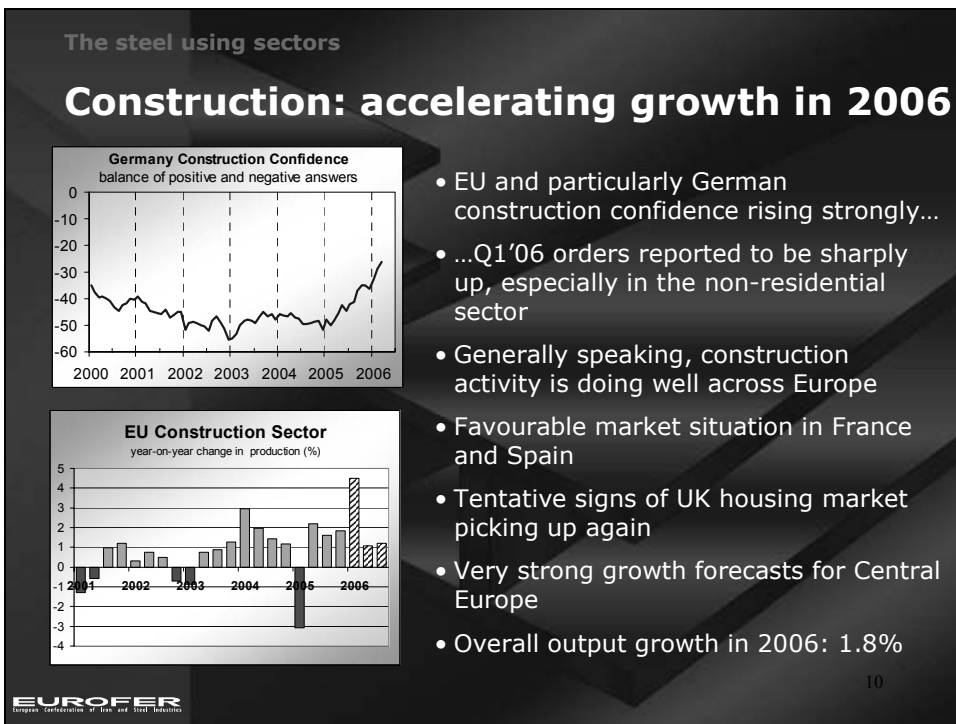
- Economy seen growing almost 3% in 2006
- Solid growth in emerging Asia continues, led by China and India
- Strong performance owing to both exports and domestic sectors
- 2006 GDP forecast China: 9.3% and India: 7.7%

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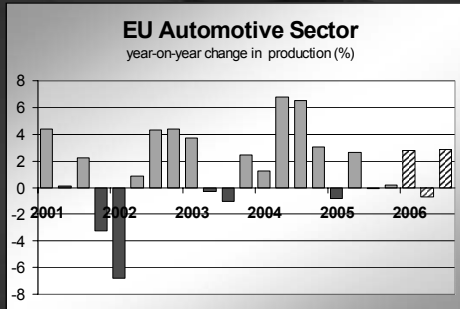
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The steel using sectors

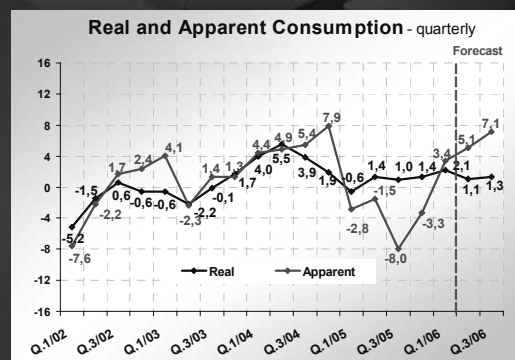
Automotive: overall positive despite diverging trends



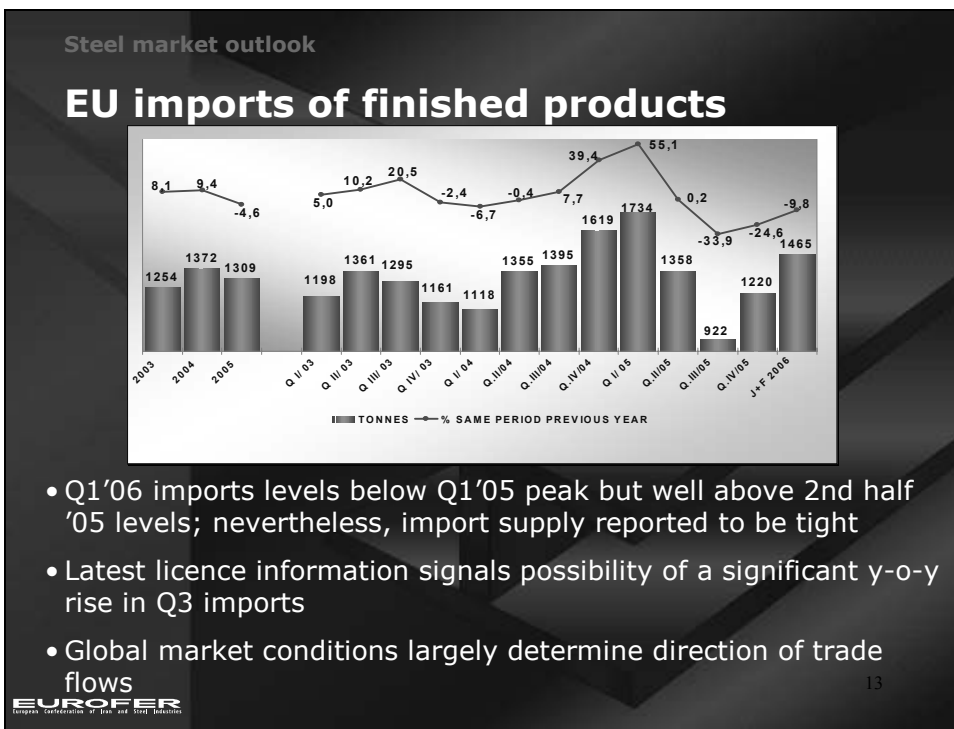
- EU15 car sales up 3.4% y-o-y- in Q1'06
- Sales in new EU countries falling 0.6% mainly due to Poland
- Q1'06 output supported by growth in Italy
- Meanwhile, output in France being reduced in response to weak orders and high stocks
- Output in Germany mainly supported by export demand
- On balance, output seen growing by 1.5% this year

Steel market outlook

Further improvement in market conditions expected



- Solid growth real steel consumption in 1st qtr 2006
- Further y-o-y recovery projected for the remaining quarters of '06
- Year-end '05 stocks seen as normal or even a bit low
- Stock replenishment key driver Q1'06 apparent consumption rise
- From Q2 onwards stronger support improved end-use demand



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China Supply/Demand

China Supply Demand m tonnes	Base Case				
	2003	2004	2005	2006f	2006f
Crude Steel Production (IISI)	222	280	349	400	419
Imports (Actual) (ISSB)	43.2	33.2	27.2	#N/A	#N/A
Exports (Actual) (ISSB)	8.2	20.1	27.5	#N/A	#N/A
Net Trade - Total (Actual) (CSE)	35.0	13.1	-0.3	#N/A	#N/A
Net Trade - Total (Actual) (CSE)	38.9	14.6	-0.3	-15.3	-26.8
Net Trade - Total (IISI) (CSE)	37.1	22.2	#N/A	#N/A	#N/A
App. Demand (Crude Basis) (ISSI)	260	302	348	385	392
Real Consumption (Crude)	260	308	342	385	385
Stock Change	0.0	-5.6	5.6	0.0	7.8
App. Demand (Finished Product) (ISSI)	234	270	315	349	356
Real Consumption (Finished Product)	234	275	310	349	349
Stock Change	0.0	-5.0	5.0	0.0	7.0
% Change y-o-y					
Crude steel production	22.0%	25.9%	24.8%	14.5%	20.0%
Imports	47.4%	-23.1%	-18.1%	#N/A	#N/A
Exports	24.2%	145.1%	36.8%	#N/A	#N/A
Apparent Consumption	25.3%	15.6%	16.7%	10.7%	12.9%
Real Consumption	25.3%	17.7%	12.7%	12.5%	12.5%
% World Demand	26.7%	28.0%	31.0%	#N/A	#N/A

Source: CRU, CSFB, Deutsche Bank, ISSB, IISI, Macquarie, WSD

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Steel market outlook

Risks to the outlook

- Germany: how short-lived is the up tick?
- Will EU manufacturing sector fulfil its promise?
- How strong is the construction sector recovery?
- Imports into the EU: underestimated or exaggerated?

Globally:

- Global risks: high oil prices, global economic/financial imbalances, China: financial system, continued economic momentum.
- USA: collapse housing market affecting consumer spending, twin deficits
- Asian production levels, leakage of steel trade flows to western markets
- US imports – strength of real demand