



is a leading steel information service in Englewood Cliffs, N.J., USA.

WSD’s steel experience, steel database and availability of steel statistics are the principles for performing steel forecasts, studies and analysis for international clients. WSD seeks to understand how the “pricing power” of steel companies the world over will be impacted by changes in the steel industry’s structure. The views and opinions expressed in this article are solely those of World Steel Dynamics and not necessarily those of AIST.

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European Steel Outlook “Approaching Crisis Territory”

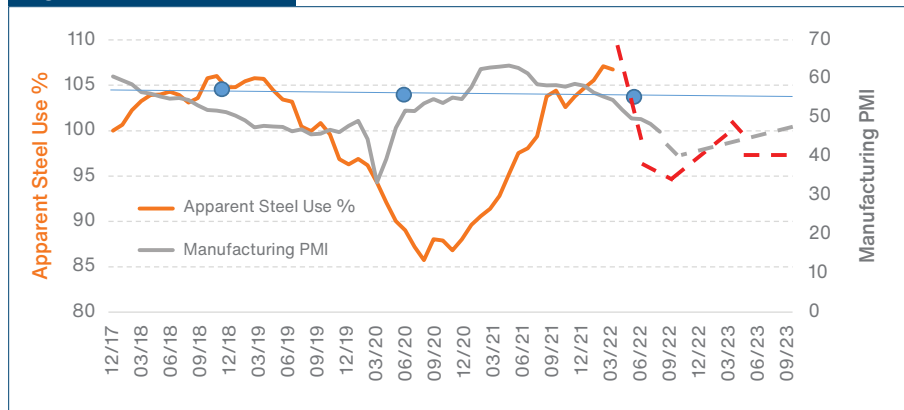
Reflecting the gloomy outlook that rising interest rates (among other problems) portend for the EU economy, the steel sector expectations index in Germany (a great proxy for overall EU conditions, in WSD’s opinion) reflected all-time lows in 2022 not seen with the era of COVID-19 lockdowns in April–May 2020. The sentiment was especially dire with respect to the construction sector — a segment that has supported EU steel consumption during previous downturns in 2019 and 2020. The current monetary tightening dynamic portends a dire outlook for construction, as a lack of consumer confidence and expectations of an economic crisis, combined with rising mortgage interest rates will no doubt conspire to hold back the residential real estate sector. As buyers adopt a “wait-and-see” attitude, the volume of new construction projects is likely to plummet in 2023.

The expected downturn in the EU economy and industrial sectors is confirmed by the Manufacturing Purchasing Managers Index (PMI), which fell below the 50-point

threshold in July 2022. Typically, the Euro area Manufacturing PMI quite reliably signals a change in medium-term trends. On that basis, the EU appears closer to the beginning of a crisis than its end, with a decline in industrial activity and steel consumption lasting 12–18 months from the “turning point” — in other words, the EU economy may not begin to recover until the second half of 2023.

Since the start of the Russia/Ukraine war, developments in the European steel market appear to be leading the charge from a global perspective, offering a microcosm of the global events at play. The price of hot-rolled band (for buyers willing to place significant-sized orders) has been on a free fall from a high of EUR1,400 in March 2022 and dipped below the EUR600/metric ton threshold by mid-November. It has since rebounded, but is firmly in “death spiral” territory from the mills’ perspective, even when considering the substantial decline in energy costs from September peak levels.

Figure 1



Manufacturing Purchasing Managers Index in Euro area. Sources: S&P Global and WSD calculations.

After the recession caused by the pandemic of 2020, apparent steel consumption plummeted (-11.5%) for the second consecutive year after the downturn (-5.7%) seen in 2019. Apparent steel consumption rebounded in 2021 (+16.6%) as reported by the World Steel Association. The ongoing supply chain issues and the consequences of the Russia-Ukraine crisis caused

heavy disruptions for the economy and steel-producing/using industries in Europe, set to reflect in apparent steel consumption levels in 2022 (-3.5%) and most likely in 2023 (-1.3%). This is the result of continuing downside factors, such as high energy prices, that will persist in undermining demand.

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