PRESS RELEASE - worldsteel Short Range Outlook June 2020

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The World Steel Association (worldsteel) today released its Short Range Outlook (SRO) for 2020 and 2021. In 2020 worldsteel forecasts that steel demand will contract by 6.4%, dropping to 1,654 Mt due to the COVID-19 crisis. In 2021 steel demand is expected to recover to 1,717 Mt, an increase of 3.8 % over 2020. This year's reduction in global steel demand will be mitigated by an expected faster recovery in China than in the rest of the world. The forecast assumes that most countries' lockdown measures continue to be eased during June and July, with social distancing controls remaining in place, and that the major steelmaking economies do not suffer from substantial secondary waves of the pandemic.

Commenting on the outlook, Mr Al Remeithi, Chairman of the worldsteel Economics Committee said,

"The COVID-19 crisis, with its disastrous consequences for public health, also represents an enormous crisis for the world economy. Our customers have been hit by a general freeze in consumption, by shutdowns and by disrupted supply chains. We therefore expect steel demand to decline significantly in most countries, especially during the second quarter. With the easing of restrictions that started in May, we expect the situation to gradually improve, but the recovery path will be slow.

However, it is possible that the decline in steel demand in most countries will be less severe than during the global financial crisis as the consumption- and service-related sectors, which have been hit hardest, are less steel-intensive. In many developed economies, steel demand was already at a low level, having still not fully recovered from 2008.

Let me underscore that this forecast is presented at a time of high uncertainty. As economies are reopening without a vaccine or cure in place, significant downside risks exist. If the virus can be contained without second and third peaks, and if government stimulus measures are continued, we could see a relatively quick recovery."

Prospect of recovery

As most countries have been gradually reopening from their lockdowns since mid-May, recovery of economic activities is expected in the third quarter.

Even though all steel-using sectors are affected by the lockdown measures, the mechanical machinery and automotive sectors are highly exposed to a prolonged demand shock, as well as to disruption in global supply chains. Changes in working procedures in the steel-using sectors to fulfil the requirements of social distancing have been carried out. This change in the working environment will potentially lead to lower productivity and an extended production cycle.

China

Coming out of the lockdown ahead of other countries, China's economic recovery started in late February. Its economy is fast approaching normalisation, except for the hospitality and tourism sectors. The deep freeze in economic activity during February resulted in a decline of 6.8% in GDP and 16.1% in fixed asset investment in the first quarter. Industrial production fell by 8.4%, with the automotive sector showing the worst decline of 44.6% in the first quarter.

By the end of April, all major steel-using sectors were back to near full productivity, even though the full operation of the manufacturing sector is hindered by the collapse in export demand. Following the lifting of the lockdown in Wuhan on 8th April, the construction sector has already reached 100% productivity.

The recovery of steel demand will be more visible in the second half of 2020. It will be driven by construction, especially infrastructure investment, as the government has put forward several new infrastructure initiatives. Recovery in manufacturing will be slower due to a severe recession in the global economy, but the automotive industry will get some support from incentive measures.

We expect Chinese steel demand to increase by 1.0% in 2020. We also expect that the benefit from infrastructure projects initiated in 2020 will carry over and support steel demand in 2021. A substantial stimulus programme as seen in 2009 is not expected as this might work against the government's desire to continue rebalancing the economy. However, if the global economic environment affects the recovery of the Chinese economy more profoundly, the government might need to provide a further boost to the economy, implying an upside risk to steel demand.

Developed economies

Steel demand in the developed economies is expected to decline by 17.1% in 2020. Although the downturn is led by consumer and service sectors, massive dislocations in spending, labour markets, and confidence are fuelling broad-based declines in steel-using sectors. A spillover from substantial job losses and bankruptcies, weak confidence and continued social distancing measures suggest only a partial recovery of 7.8% in 2021.

EU steel demand suffered a contraction of 5.6% in 2019 due to the sustained manufacturing recession. The manufacturing sector, which was forecast to enter a recovery phase in early 2020, was pushed back into a deeper recession as lockdown measures led to a massive fall in orders.

The automotive sector is expected to be the worst hit, whilst the construction sector could remain relatively resilient.

In the US, COVID-19 is causing a sharp manufacturing recession, which is expected to reach its nadir in the second quarter. The fall in oil prices has placed additional downward pressure on energy sector investment, which was already distressed prior to the crisis. Surging unemployment is leading to reduced income and confidence, impairing residential construction. Although non-residential construction is faring relatively better, it is expected to face a decline in 2020 and a slight recovery in 2021.

Japanese steel demand has been weakening since the second half of 2019 and will continue to contract by double digits in 2020 as reduced exports and stalling investments weigh heavily on their automotive and machinery sectors. Despite the halt in some construction projects, construction will see a relatively small contraction due to the continuation of public works.

In Korea, major steel-using sectors are expected to see a double-digit decline because of falling export markets and a weak domestic economy. The shipbuilding sector is expected to be the hardest hit, while the contraction in construction activity will record a milder decrease due to public infrastructure projects.

Developing economies (excluding China)

The developing economies are less well equipped to tackle COVID-19 than the developed economies, with inadequate health capacity leading to stricter lockdown measures in some countries.

Limited fiscal space to support the economy, a fall in commodity prices, capital flight and currency depreciation render the decline of steel demand in some developing countries as severe as that in developed economies. Steel demand in the developing economies excluding China is expected to fall by 11.6% in 2020, but will see a substantial recovery of 9.2% in 2021.

India has implemented the most stringent nationwide lockdown measures in the world, bringing industrial operations to a standstill. Construction activity was halted entirely at the end of March, and recovery is expected to remain slow due to the slow return of labour. Supply chain disruption coupled with slower demand recovery will hit the automotive sector hard. The machinery sector is expected to see a continued decline, with weak private investment and supply chain disruption.

Supported by government stimulus, recovery in construction will be led by infrastructure investment such as railways. The government's support to rural income, as well as expected consumption related to the upcoming festive season, will help a substantial recovery of demand for consumption-driven manufacturing goods in the second half. As a result, India is likely to face an 18.0% decline in steel demand in 2020, which will rebound by 15.0% in 2021.

In the first quarter the ASEAN countries were hit hard by the lockdown in China and are subsequently experiencing extended disruptions in their supply chains and in tourism. Despite the lockdown, some infrastructure projects are continuing, making the fall in steel demand less acute. Growth in Vietnam is foreseen thanks to the early containment of COVID-19. In 2021, a renewed focus on infrastructure investment is expected to boost steel demand.

The COVID-19 pandemic has brought a perfect storm to Latin America and will undermine the prospect of any recovery in Latin American countries during 2020. Latin America is particularly vulnerable because of its accumulated domestic structural problems, political instability and high exposure to commodity prices. The region is expected to see a substantial decline in steel demand in 2020 and only a weak recovery in 2021. As the region seems to be lagging in the COVID-19 curve, the outlook may deteriorate further. The prospect of pushing forward with reform agendas and infrastructure plans is being hampered, pointing to a possible long-lasting impact from COVID-19 for the region.

In the CIS, the economy will be slow to come out of recession. Combined with the collapse in oil prices, the COVID-19 crisis will push steel demand into a severe contraction in 2020, with a mild recovery in 2021.

The oil-producing countries in the MENA region are among the hardest hit due to the double shock of the COVID-19 outbreak and the plunge in oil prices.

Construction

The construction industry in some countries suffered an abrupt halt of projects due to supply chain disruptions and a shortage of workers during the lockdown period. However, the decline in the construction industry will be less severe than during the financial crisis. In the construction sector, social distancing measures seem to be more challenging to put in place, hindering post lockdown resumption of work. Prospects of new construction projects have also worsened due to the deteriorated balance sheets of consumers and businesses. Governments might try to put a focus on new construction projects in an effort to support demand, but significantly worsened government balance sheets may confine the ability to carry out public infrastructure investments.

Mechanical machinery

The mechanical machinery sector, where supply chains are some of the longest in manufacturing, has experienced significant logistical bottlenecks and supply chain issues. At the same time, mechanical machinery will experience a substantial decline in demand in 2020 as investment projects are put on hold or cancelled. The sector will face challenges in demand recovery in the longer term due to a bleak outlook for investment. However, sectors like agricultural and construction machinery will recover faster.

Automotive

The automotive industry is the biggest victim of the COVID-19 crisis among the steel-using sectors. In 2020 the automotive industry is expected to experience a loss of sales of 20% on top of the losses in the past two years. Recovery to pre-crisis levels will take several years due to income growth and remote working, but safety concerns might boost demand for passenger cars in the short term. Furthermore, the supply disruptions may continue beyond the lockdown period as liquidity problems will deter the restart not only of car producers, but also of auto part suppliers. The transition to electric vehicles will continue and likely accelerate post-pandemic.

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Notes

- The World Steel Association (worldsteel) is one of the largest and most dynamic industry associations in the world, with members in every major steel-producing country. worldsteel represents steel producers, national and regional steel industry associations, and steel research institutes. Members represent around 85% of global steel production.
- The SRO includes presentations, estimates and other information that are forward-looking. While these forward-looking statements represent our current judgement on what the future holds, they are subject to risks and uncertainties that could cause actual results to differ materially. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect worldsteel's opinions only as of the date of this release.