PRESS RELEASE – worldsteel Short Range Outlook October 2022

19 October 2022 | Brussels, Belgium

The World Steel Association (worldsteel) has today released an update of its Short Range Outlook (SRO) for 2022 and 2023. worldsteel forecasts that steel demand will contract by 2.3% in 2022 to reach 1,796.7 Mt after increasing by 2.8% in 2021. In 2023 steel demand will see a recovery of 1.0% to reach 1,814.7 Mt. The current forecast represents a downward revision over the earlier forecast, reflecting the repercussion of persistently high inflation and rising interest rates globally. High inflation, monetary tightening, and China's slowdown contributed to a difficult 2022, but infrastructure demand is expected to lift 2023 steel demand slightly.

Commenting on the outlook, Mr. Máximo Vedoya, CEO of Ternium, and Chairman of the worldsteel Economics Committee, said, "the global economy is affected by persisting inflation, US monetary tightening, China's economic deceleration, and the consequences of Russia's invasion of Ukraine. High energy prices, rising interest rates, and falling confidence have led to a slowing in steel using sectors' activities. As a result, our current forecast for global steel demand growth has been revised down compared to the previous one. The prospect for 2023 depends on the impact of tightening monetary policies and central banks' ability to anchor inflation expectations. Particularly the EU outlook is subject to further downside risk due to the high inflation and the energy crisis that have been exacerbated by the Russia-Ukraine war."

General

The global economic environment has deteriorated significantly in 2022 as inflation risk fully materialised along with other major headwinds, namely the Russia-Ukraine war and China's lockdowns. The Russia-Ukraine war exacerbated the inflationary pressure that was ignited by the post-lockdown supply and demand imbalances as the war disrupted energy and food supplies and intervened with the normalisation of supply chains. In particular in Europe, where dependence on Russian gas supply is high, economic activities, as well as confidence, are heavily affected by the energy crisis.

The Fed's aggressive interest rate hikes and strong US dollar are propelling recession risks in the US and will have a ripple effect for the rest of the world through capital outflows in the emerging economies, increasing the financial stress of indebted countries and consumers. Rising interest rates and high inflation will affect investment and consumer spending, and will hurt steel-intensive sectors such as construction, machinery, and consumer durables.

Supply chain problems eased somewhat in 2022, but continued to constrain production activities as new disruptions have emerged. Assuming that the war will not end soon and China continues to maintain its strict COVID containment policy for the time being, supply bottlenecks will not dissipate completely, despite slowing demand.

Uncertainty remains elevated for the global economy and the balance of risks is largely skewed to the downside. Among those are the effect of monetary tightening, continuation of inflation, the direction of the Chinese economy and its COVID policy, the potential crisis of gas supply in Europe, and the aggravation of the Russian-Ukraine war with unexpected consequences.

China

The recovery of Chinese steel demand in late 2021 reversed in the second quarter of 2022 as repeated COVID lockdowns led to a drastic cooling of the Chinese economy. The slump in the property market has deepened, with investment in real estate slowing to its worst in 30 years. All major real estate market indicators are in negative territory, with floor space under construction contracting for the first time in its modern history. Despite the government's efforts to boost the real estate market, a major turnaround is not expected since buyers' confidence remains weak due to strict COVID measures and developer bankruptcies. Infrastructure investment is recovering owing to government measures, and will provide some support to steel demand in late 2022 and 2023. However, as long as the real estate sector remains depressed, it will be difficult for steel demand to rebound significantly.

Steel demand in China contracted by 6.6% in the first eight months of 2022. For the whole year, steel demand is likely to fall by 4.0% with the low base effect of the second half of 2022. In 2023, new infrastructure projects and a mild recovery in the real estate market could prevent further contraction of steel demand. Steel demand in 2023 is expected to remain flat under the assumption that small new stimulus measures are to be introduced and lockdown measures will be largely removed in the later part of 2022. Significant downside risks exist if these assumptions are not met. The slowing global economy poses further downside risk for China.

Advanced economies

Steel demand recovery in developed economies saw a major setback in 2022 due to sustained inflation and lasting supply side bottlenecks. The war in Ukraine has provided further impetus to inflation and supply chain issues. In particular, the **EU** is facing dire economic conditions with high inflation and the energy crisis. Sentiment is dwindling and industrial activities are cooling sharply toward a decline as high energy prices are forcing factory shutdowns.

Steel demand in the EU is expected to contract by 3.5% in 2022. With immediate improvement in the gas supply situation not in sight, steel demand in the EU will continue to contract in 2023 with a significant downside risk in case of harsh winter weather or further disruptions to energy supplies. Financial risks stemming from high public debts and slow growth in China pose further downside risks for the EU. There are also possible long-term consequences for the structure of the economy and hence steel demand if the economic constraints continue at the current level. On the other hand, if the Russia-Ukraine war ends sooner than expected, there is an upside potential.

The sustained and strong recovery of the **US** economy from the pandemic shock is coming to an end as the Fed pursues aggressive interest hikes to contain inflation. Manufacturing activities are expected to cool sharply thanks to the weak economic environment, strong dollar and shift of spending from goods to services. However, the automotive sector is expected to maintain the positive momentum on the back of pent-up demand and easing of supply chain constraints. The construction sector will struggle due to the easing of the housing boom and the delayed recovery of the non-residential sector on the back of rising materials cost and high interest rates. The new Infrastructure Law will however sharply boost infrastructure investment, and rising energy sector investment will support growth in steel demand despite a weakening economy. Overall, US steel demand is not expected to turn into a contraction.

The recovery of steel demand in **Japan** weakened as rising materials cost and labour shortages have led to construction delays. However, with the support of the non-residential construction and machinery sectors, steel demand will continue its moderate recovery in 2022. Growth in the automotive industry with easing of supply chain constraints will allow for a continued recovery of steel demand in 2023.

The steel demand outlook for **South Korea** has worsened and is expected to decline in 2022 due to contracting facility investment and construction. Recovery in 2023 will be led by easing of auto supply chain bottlenecks and an improved outlook for ship deliveries and construction. However, recovery of manufacturing will be limited due to the weak global economy.

Both Japan and Korea face downside risks from the worsening global economic outlook as their steel using sectors have a high exposure to exports.

Steel demand in the developed world will fall by 1.7% and recover by 0.2% in 2022 and 2023 respectively, after recovering by 16.4% in 2021 from the pandemic dip of 12.3%.

Developing economies excluding China

Many developing economies, especially energy-importing ones, are experiencing more acute inflation and monetary tightening cycles that started ahead of the developed economies. The construction sector is affected by high inflation, either directly through high interest rates and materials costs, or reduced government budget space for infrastructure projects due to spending on inflation relief measures.

Still, the fast-growing Asian developing economies like India and ASEAN will maintain high growth, supported by the structural strength of the domestic economy.

Despite global headwinds, **India**'s steel demand will show high growth on the back of strong urban consumption and infrastructure spending, which will also drive demand for capital goods and automobiles among other things.

In the **ASEAN** region, steel demand saw a slow start of recovery from the pandemic, with the recovery of construction lagging. However, in 2022, the region's steel demand has been showing strong growth as governments are pushing for infrastructure projects. Particularly strong growth in steel demand is foreseen in Malaysia and The Philippines.

On the other hand, the countries in **South and Central America** will see a major deceleration in steel demand as the region faces challenges from a high inflation environment. Besides high inflation and rising interest rates domestically, US monetary tightening will put additional pressure on financial markets. Following an exceptional rebound in 2021, steel demand in many South and Central American countries will see a contraction in 2022, with significant destocking and slowing construction.

In the **MENA** region, steel demand remains resilient owing to the oil-exporting countries benefitting from high oil prices and mega infrastructure projects in Egypt. However, high oil prices have not led to a major increase in new construction projects in the GCC countries as governments are trying to build up fiscal buffers.

In **Turkey**, the lira's depreciation and high inflation are hurting its construction activities, leading to a contraction of steel demand in 2022 and only a limited rebound in 2023.

Despite heavy sanctions imposed on **Russia**, steel demand is expected to contract less than what was forecast at the beginning of the war, mainly due to high oil prices and government support measures on construction. However, the automobile and machinery sectors have seen a deep contraction due to their high dependence on imported parts and components. In 2023, steel demand is expected to see a deeper contraction as the sanctions become more biting over time. Steel demand in war-ridden **Ukraine** contracted more than 50% in 2022, but a partial recovery is expected in 2023 on the back of reconstruction activities.

Steel using sectors

Construction

The post lockdown recovery in construction activity was hindered first by supply bottlenecks and then surging materials costs. Global construction activity is facing further challenges in the coming years as interest rates start to rise across many regions for the first time since the global financial crisis. The residential construction outlook has deteriorated considerably due to rising funding costs, lowered purchasing power, and weak confidence. On the other hand, despite the headwinds, infrastructure remains a bright spot in many regions, as governments are focusing on infrastructure projects.

In China, the property market remains depressed, and a strong rebound is not expected due to low buyers' confidence. With some relaxation measures in the real estate market expected, a slight improvement in 2023 is likely. Infrastructure investment could take a more positive momentum as the Chinese government is relying on infrastructure investment to support the weak economy.

In the US, the new Infrastructure Law is expected to boost investment in infrastructure sharply despite the deteriorating overall economic environment. The boom in residential construction is fading amid high construction costs, rising mortgage rates and elevated home prices. Sharply rising interest rates will delay the recovery of the non-residential sector.

In the EU, construction activities are generally weakening amid high material costs, a shortage of materials, rising interest rates, and falling confidence. Italy for its part has seen strong construction growth in 2022 on the back of government incentives, but the future outlook is uncertain.

In Japan, civil engineering projects associated with natural disaster prevention programmes will support construction steel demand.

In India, a strong push for infrastructure, including roads and metro projects, will continue to drive steel demand. Urban infrastructure development will also drive the residential sector's recovery.

Across ASEAN, governments are focusing on resuming delayed or halted infrastructure projects. Still, tightening monetary policy and rising costs may undermine growth in residential construction in the region.

Mexico is facing a very weak recovery in construction: the sector is not expected to reach pre-pandemic levels in 2023. In Brazil, the construction sector is also slowing down after a strong performance in the first half of 2022.

In the GCC countries, budget-buffering efforts are delaying new projects in the short term, but high oil prices will lead to more construction activities in the near future.

Automotive

The global auto industry's recovery continued during the first half of 2022 amid the headwinds largely related to COVID-19 restrictions in China and lingering supply chain disruptions. In the US, light vehicle production is poised for continued upward movement provided supply bottlenecks continue to ease, even as the broader manufacturing sector slows sharply. In Mexico, after a weak performance in 2021, auto production is expected to show strong growth in 2022 and 2023 on the back of the gradual alleviation of the shortages of semiconductors. In India, the momentum for passenger car production is strong and is expected to remain healthy with strong order books and improving microchip supply. In South Korea, auto production is expected to show growth as the lockdowns in China and supply chain disruptions are somewhat alleviated. Meanwhile, in Germany and Japan, the recovery is taking place at a slower pace, with more visible improvement expected in 2023. In Russia, passenger car production plunged with weak demand and increasingly severe shortage of components.

More recently, supply chain disruptions are getting less acute, and it is expected that the situation will show further improvement in 2023. However, rising inflation and especially rising energy prices are squeezing household budgets, while rising interest rates make cars less affordable. Potential weakness on the demand side may weaken the recovery of production.

However, the production and sales of EVs have been gaining momentum, especially in China and Europe. In China, production of EVs jumped by 120.0% to 3.28 million units, accounting for 22.5% of total vehicle production in the first seven months of 2022.

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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.