

COMMISSION OF THE EUROPEAN COMMUNITIES

SEC(82) 1967

Brussels, 3rd December 1982

FORWARD PROGRAMME FOR STEEL FOR THE FIRST QUARTER OF 1983

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Since the prospects for steel were last reviewed, following the summer break, the world economic climate has continued to deteriorate and trends in the Community have continued to echo this. Although the service industries and some high technology and consumer goods sectors appear capable of adapting to these conditions, the same cannot be said of the steel intensive industries. Political and financial instability in many of the ~~Community's~~ ^{Community's} overseas markets continue to have a depressing effect on trade in the engineering and transport goods that form the bulk of indirect steel exports. Moreover, the trend towards lower interest rates and easier monetary conditions has been more than offset by three adverse factors - the continuing recession in the USA, depressed commodity markets (which are the key to viability of the developing countries) and the drying up of the huge surplus in foreign trade of the OPEC countries which had come to be regarded as an almost permanent source of international liquidity. In the Community's internal market these external influences have resulted in an inflow of competitively priced engineering and automotive imports, together with finished steel products, often produced in developing countries themselves desperate to earn foreign exchange from their exports. As well as this, the Community market is still characterised by a lack of business confidence, leading to low levels of investment, whilst the budgetary policy of most Member States is oriented towards the stringent control of state spending and the reduction of the level of inflation rather than economic expansion. Thus, exacerbated by the export/import problems already described, steel demand for capital, engineering and durable consumer goods continues to decline in the Community. As a result, no improvement can be predicted before the summer of 1983, when it is hoped that lower inflation and the easing of budgetary policies will achieve an increase in the level of economic activity, if interest rates can also be held or further reduced.

The principal business indicators confirm this pessimistic analysis of the short-term prospects. Gross ^{Domestic Product} in the Community is forecast to rise by only 1.1% in 1983, similar low rates of growth are predicted for private consumption (0.8%), disposable income (0.6%), government consumption (0.9%). Fixed investment, declining by -3% in 1982, will hopefully stabilise at a positive figure in 1983 at 0.6%. ^{Industrial} destocking throughout 1982 will be replaced by stockbuilding/ ^{later} in 1983 but the Community's global foreign trade balance is forecast to be negative at -0.1%, increased imports +2.8%, offsetting marginally increased exports at +2.7%. The most disturbing statistic is an expected increase in Community unemployment to 10.3% compared with only 6.0% in 1980.

The most recent survey of business opinion and market trends reflects the stagnant conditions of the current quarter which have unfortunately substantiated the previous quarterly forecast. This is summarised in Table I where the balance of production expectations show a continuing and serious deterioration for four key steel-using manufacturing sectors - for example, note the trends for automotive products from +1 in May to -25 six months later in October. Similar indicators for the Community as a whole in manufacturers order books demonstrate a similar trend: consumer goods at -35 and investment goods at -46 (September figures).

Table I
Production expectations
(Balance of 'ups' and 'downs' seasonally adjusted)

	1 9 8 2						
	April	May	June	July	August	September	October
Manufacture of metal articles	-12	-11	-8	-15	-18	-24	-22
Mechanical engineering	-15	-14	-12	-16	-18	-23	-25
Electrical engineering	+ 1	+ 3	- 1	- 2	+ 2	- 8	-16
Manufacture of motor vehicles	- 3	+ 1	- 1	+ 1	-14	-28	-25

Projected activity in the first quarter of 1983 has been examined by main steel consuming sector. Three sectors (electrical engineering, automotive and other means of transport) hope to maintain levels of output somewhat reduced from those of the first quarter of 1982, but three others, namely - metal article manufacture, mechanical engineering and construction, show sharp falls against the reference quarter, which was already very depressed measured against conditions three to four years ago. In terms of steel demand for all products such predictions give cold comfort for steel order books and capacity utilisation in the quarter.

Specific market sectors show some variation in their short-term outlook between various Member States but invariably an encouraging picture in one country is offset by a pessimistic picture in other Member States. Hence no single industry can be said to be running counter to the general trend.

Although it is likely that the predicted stock draw has continued during the current quarter, merchants and steel stockists confirm that levels of stock remain high for nearly all products in relation to the expected level of demand. Inevitably this will affect direct demand on the mills in the first quarter, hence further provision for a substantial stock draw in the quarter of 1.2 million and a low production figure of ⁺23.70 million tonnes. Real consumption is estimated at 22.10 million tonnes, a figure well below the equivalent figure of Q1/82, but in line with the market assessment made above. The Community's steel balance for Q1/83 is shown in Table II which also charts the serious decline in the last year of the two key figures of consumption and production and this is highlighted by the latest corrected estimates for these values in QIII/82 of 22.08 million tonnes and 24.21 million tonnes respectively, the lowest for many years.

Table II

Steel supply and demand - Eur 10

	III/81	IV/81	I/82	II/82	III/82 ¹	I/83
Real consumption	25.43	27.72	28.16	28.27	22.08	22.10
Stock change	-1.50	-0.82	+2.09	+0	-1.00	-1.20
Imports	1.77	2.47	3.28	3.16	2.35	2.70
Exports	8.30	7.42	5.28	6.14	5.48	5.50
Production	30.46	31.85	32.25	31.25	24.21 ²	23.70

¹ Estimated.

² Actual

The abatement rates set for QIV 1982 for products falling under the compulsory or voluntary quota systems were extremely severe, and the total steel production forecast was, at 25.60 million tonnes, exceptionally low. In the event present indications are that even this level will not be attained and the shortfall may be more than 1 million tonnes. In these circumstances, a deterioration of price levels has taken place and the industry is again in a very adverse financial situation, with the great majority of companies in a loss-making position. Steps have already been taken with a view to restoring prices to remunerative levels and, fortunately, the fluctuations in national currencies during the earlier part of the year, which have greatly contributed to the disruption of Community steel prices in recent months, have now abated. If the price objectives are now to be achieved from ^{1 January 1983 onwards} / quotas must be set at a level to ensure that supply does not exceed demand. The quantity limitation must be supported by stricter and more effective measures of price surveillance to reinforce the price discipline of the producers and merchants. In this respect it should be noted that Member States assume the responsibility for the price discipline of merchants and traders from 1 January 1983.

Q III/82

Imports in / are now estimated to be 2.35 million tonnes which confirms the expectation that imports would fall away towards the end of the year. In view of the reduced steel consumption forecast for the Community in 1983, it can be supposed that Arrangements with the principal exporting countries will reflect this situation, and imports for QI 83 are therefore restricted at 2.70 million tonnes.

As indicated earlier, export prospects are not encouraging, the world steel market being characterised by low demand, low prices and very aggressive competition. An arrangement has now been concluded with the United States which is geared to the level of steel consumption in that country, where steel demand is likely to remain at its current low levels for some months into 1983. In view of the above factors exports are estimated at 5.50 million tonnes for QI 1983.

Quota levels of each product category in Quarter I/1983 have been based on this assessment. Real steel consumption, the level of stocks, import penetration and export prospects have all been taken into account and have been considered in the context of the overriding necessity to support the steel price objectives by setting quota levels which recognise the very depressed state of the market.

For the products subject to Article 58 of the ECSC Treaty, the following considerations have determined the rates of abatement necessary. In the case of Category I (strip mill products) the experience of the fourth quarter and trends for the first quarter of 1983 make it necessary once more to increase the rate. High stocks in the merchant trade and continuing stagnation/^{and}decline in the user industries for these products are predicted - principally in tubes, automotive, domestic appliances and construction. For long products (Category IV - wire rod, Category V - reinforcing bars, Category VI - merchant bars) it is proposed to maintain the same rates of abatement as in the preceding quarter. These were already very severe but it is not possible to reduce them in view of the failure of the markets for these products to show any prospects of improvement in the short term.

Similar considerations have been applied in determining the abatement rates for the "voluntary" products. There is still no sign of a more favourable investment climate (essential for improved order books for capital goods) or an upturn in exports. In view of the dependence of the "voluntary" products on these markets (Categories II and III - quarto plates and heavy section), restrictive abatement rates continue to be necessary to balance supply and demand.

Table III

(in %)

Voluntary products	Production	Part which may be delivered in the Common Market
II (reversing mill plate)	47	44
III (heavy sections)	46	54

As regards the products subject to Article 58 of the ECSC Treaty, the abatement rates for establishing the production quotas and the part of these quotas which may be delivered in the common market for the first quarter of 1983 have been published by the Commission.¹

¹ OJ No L 341, 3.12.82

The following Table IV gives a comparison of the total quota for the first quarter of 1983 compared with the production for earlier periods.

Table IV

(in 000 tonnes)

Category	Production			Quota				
	I/82	II/82	III/82	I/82	II/82	III/82	IV/82	I/83
Ia (hot rolled coil)	5 657	5 650	4 200	5 661	5 584	4 420	3 880	3 330
Ib (uncoated sheet)	3 662	3 819	3 260	3 418	3 833	3 212	3 028	2 560
Ic (galvanized sheet)	933	1 073	755	1 003	1 174	900	869	720
Id (other coated)	558	619	520	595	713	634	629	525
IV (wire rod)	-	-	2 100	-	-	2 244	2 244	2 200
V (reinforcing bars)	1 807	1 524	1 570	2 262	1 929	1 534	1 567	1 550
VI (merchant bars)	2 377	2 255	1 710	2 691	2 626	2 176	2 192	2 150
II (reversing mill plate)	1 725	1 535	1 230	1 662	1 684	1 335	1 270	1 140
III (heavy sections)	1 318	1 134	890	1 282	1 156	1 086	997	960

During the first 11 months of 1982 the workforce of the Community's steel industry has decreased by 23 700 - representing 2 150 jobs lost per month. These job losses are additional to those of the first and second halves of 1981. It is noteworthy that the current rate of loss has been reduced compared with 1981 when the monthly rate each half year was 5 050 and 3 150 respectively.

Another disquieting factor is now apparent as a result of the market crisis in the steel industry, which is more acute in 1982 than in 1981. This is the number of working hours lost - in December 1981 this totalled 2 360 000 hours, an average 4.5 hours per worker. However, by September 1982 this had risen to 4 143 000 hours - an average of 7.80 hours per worker.

MANPOWER TRENDS IN THE STEEL INDUSTRY BY MEMBER STATE

(in thousands of manual workers and staff employed at the end of the period in question)

Period	Total EEC excluding Greece	Fed. Republic of Germany	France	Italy	Benelux	United Kingdom
December 1978	685.3	202.8	131.6	95.6	86.6	165.4
December 1979	670.2	204.8	120.6	98.7	86.0	156.6
December 1980	597.8	197.4	104.9	99.6	81.1	112.1
December 1981	548.6	186.7	97.3	95.7	78.4	88.2
Trends - Month of July 1978 to 1982						
July 1978	696.8	203.9	135.8	96.4	88.8	168.6
July 1979	679.1	203.4	125.0	98.7	86.4	162.1
July 1978-1979 Numb.	-17.7	- 0.5	10.8	+2.3	-2.4	- 6.5
July 1978-1979 %	- 2.5	- 0.2	- 7.9	+2.4	-2.7	- 3.9
July 1980	638.2	200.7	116.8	101.0	85.0	141.5
July 1979-1980 Numb.	-40.9	- 2.7	- 8.2	+2.3	-1.4	-10.6
July 1979-1980 %	- 6.0	- 1.3	- 6.6	+2.2	-1.6	-18.9
July 1981	564.7	191.4	100.6	98.1	79.6	92.5
July 1980-1981 Numb.	-73.5	- 9.3	16.2	-2.9	-5.4	-39.0
July 1980-1981 %	-11.5	- 4.6	-13.9	-2.9	-6.4	-29.7
January 1982	546.6	184.5	97.5	95.9	78.3	88.0
July 1982	534.7	180.6	97.5	95.5	77.1	81.7
July 1981-1982 Numb.	-30.0	-10.8	- 3.1	-2.6	-2.5	-10.8
July 1981-1982 %	- 5.3	- 5.6	- 3.1	-2.6	-3.1	-11.7
Period August - November 1982						
August 1982	534.0 x	181.2	97.0	95.4 x	77.3	80.8
September 1982	531.4 x	181.9	96.0	95.2	76.9 x	79.1
October 1982	529.5 x	180.7	95.6 x	95.2 x	76.4 x	79.3
November 1982	524.9 x	179.5	95.6 x	95.0 x	75.4 x	77.7
January-November 1982	-21.7 x	- 5.0 x	- 1.9 x	-0.9 x	-2.9 x	-10.8 x
November 1981	551.8	187.8	97.5	96.2	79.0	88.9
November 1981-1982	-26.9 x	- 8.3	- 1.9	-1.2	-3.6	-11.7

x Provisional figures