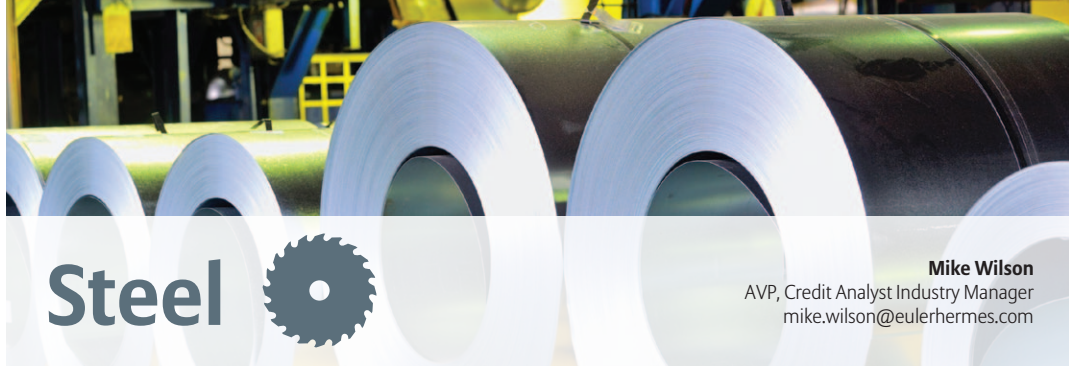


# Industry Outlook:



## Steel



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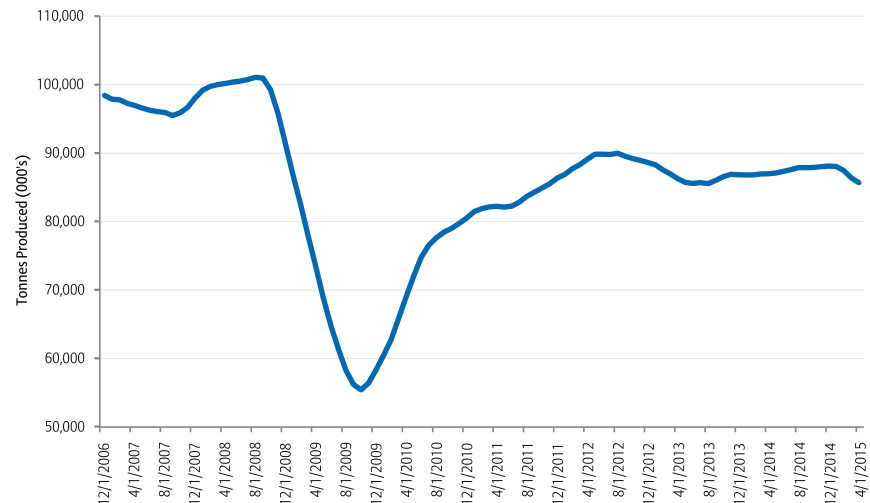
### Key Points

- 1** Euler Hermes expects a decrease in average annual production of -3/-4% in 2015 and yearly prices averaging -18% lower than 2014 mainly due to global overcapacity.
- 2** While demand lags in the energy sector, U.S. production capacity should increase to near 75% due to gains in the construction and automotive industries.
- 3** Without intervention from government legislation to protect against foreign steel dumping, there will be further consolidation and insolvencies among U.S. steel producers.

### Overview

The U.S. steel industry has been long considered a bellwether of the American manufacturing index and the economy as a whole. The steel industry plays a major role in pricing for the construction, energy, automotive, consumer appliance, railroads and heavy machinery sectors. The steel industry has made a slow recovery since the 2008 recession, which caused demand and prices to abruptly crash. This recovery, which has still left production short of pre-crisis levels, has been largely driven by robust demand in the automotive, energy and construction sectors. In 2014 the United States produced over 88.35 million tonnes of crude steel, putting the country in 3rd place behind China (822.70 million tonnes), Japan (110.66 million tonnes) and just ahead of 4th place India (83.21 million tonnes). Despite being the third highest producing country, the U.S. represented only 5.4% of total global production, vs. China's 50.3% of total global production.

### U.S. Annual Steel Production



Source: World Steel Association, Euler Hermes

### Current Environment

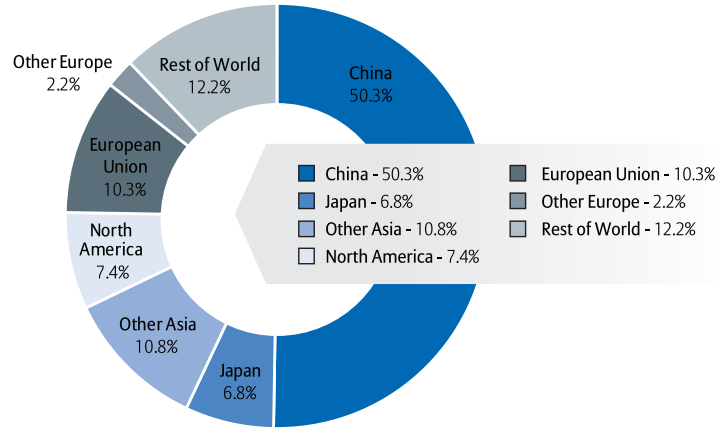
The U.S. steel market is currently facing three major headwinds: falling prices, oversupply and foreign steel dumping. Prices of iron ore fell by 28% in 2014, followed by a more drastic 50% drop through April 2015, and subsequently global steel prices decreased by 11% in 2014. The drop in both oil prices and drilling rig counts has drastically decreased demand for tubular products and flat-rolled products used to ultimately create tubular products. In the first quarter of 2015 we saw capacity utilization fall below the 70% threshold. We also saw an unprecedented level of steel imports in Q1 due to the strength of the U.S. dollar, as a result one in three tonnes of steel sold in the U.S. was produced abroad.





## 2014 Crude Steel Production

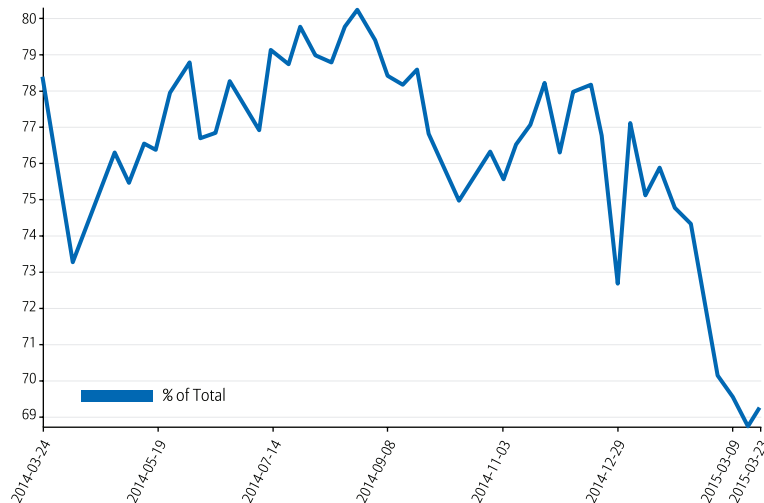
World total: 1,637 million tonnes



Source: World Steel Association, Euler-Hermes

Large U.S. producers are working with Congress to pass trade promotion authority legislation to apply tariffs and other remedies to foreign producers currently flooding the market. The European Union imposed temporary duties of up to 35.9% on Chinese, Japanese and other foreign producers in May, which are set to last for six months and could set a precedent for U.S. lawmakers to follow suit. In 2014 Ford Motors announced it was replacing the steel bodies of its #1 selling F-series trucks with aluminum bodies, while this is a major drop in steel tonnage, the aluminum bodies are being reinforced with high strength steel, which is a much higher margin product, so this has been a net positive for impacted suppliers.

## U.S. Steel Industry Capacity Utilization



Source: American Iron and Steel Institute

## Outlook

Steel prices are forecasted to decline further by a yearly average of -18% in 2015. However, primary producers will work through their higher cost iron ore inventory, while metal service centers will work through their stocks and pricing is expected to stabilize and rebound in the second half of 2015.

A number of the primary producers in North America are fully vertically integrated and have variable cost structures that allow them to weather downturns. On the other hand, some of the smaller players that lack the vertical integration and have a fixed cost structure may



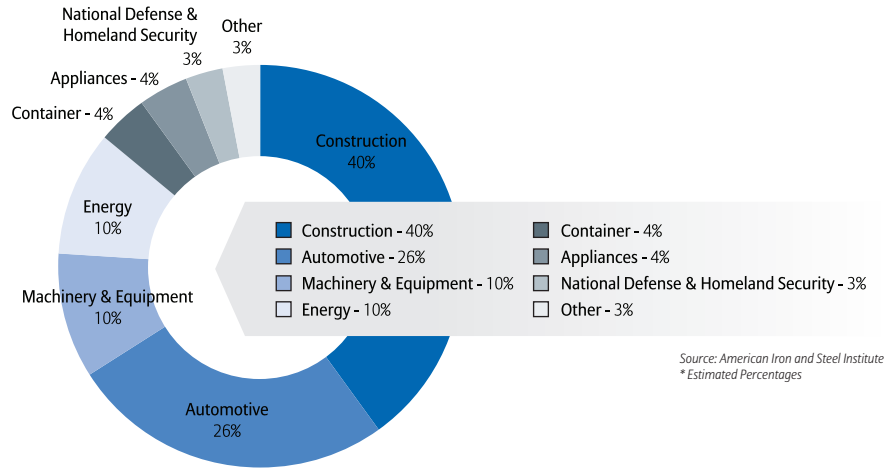
### About Euler Hermes

Euler Hermes North America is the oldest and largest provider of trade credit insurance and accounts receivable management solutions. We offer both domestic and export credit insurance policies that insure against commercial and political risk in more than 200 countries worldwide. Euler Hermes maintains a database of proprietary information on more than 40 million companies worldwide and is rated A+ (Superior) by A.M. Best and AA- by Standard & Poor's.

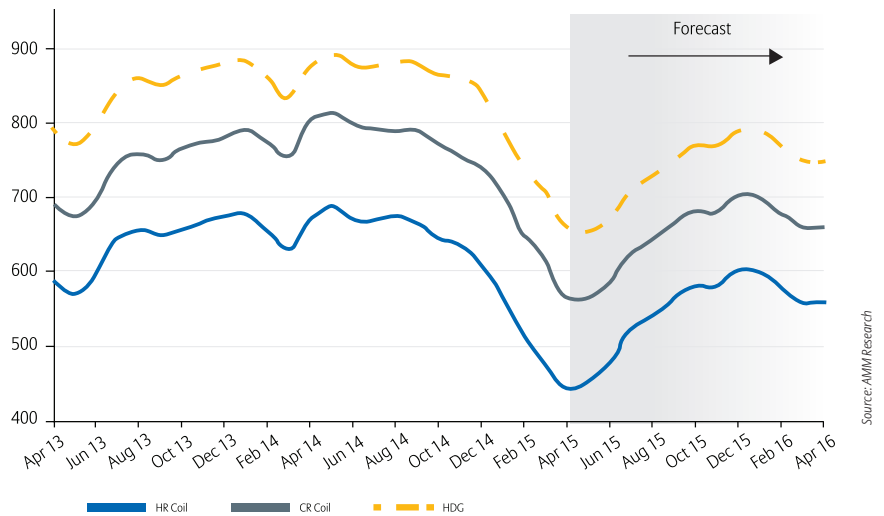
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become potential acquisition targets for big names like Nucor, US Steel and Steel Dynamics to gain additional production capacity and market share. In the automotive sector General Motors has responded to the success of Ford and pushed forward the timeline of its new aluminum-bodied Chevrolet Silverado and GMC Sierra trucks to the fall of 2018. Thanks to rebounding oil prices and strong momentum in the housing and construction industries we expect utilization rates to increase closer to the 75% levels seen in 2014 by the end of the year.

### 2014 Steel Shipments\* by Market Classification



### North American Steel Price Forecasts (\$/TON)



### What this Means for Your Business

With likely decreases in annual production, coupled with falling prices due to global oversupply, the U.S. steel industry is likely to experience increases in corporate consolidations and insolvencies. Companies in the construction, machinery and equipment, and automotive sectors should enjoy the benefits of lower priced material for at least the next six to twelve months. However, companies with buyers in the steel producing and steel services sectors should use caution when extending credit to these companies due to increased uncertainty. A credit insurance policy can help safely expand sales while managing the risk associated with the various components of each sector.