

Short Range Outlook April 2017 Survey (*February Update*)

Country: Canada
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Country Profile

	forecast values					
	MEMBER'S INPUTS					
	2013	2014	2015	2016	2017	2018
General Economic Indicators, y-o-y % growth						
Gross Domestic Product	2.0	2.5	1.1	1.4	2.1	2.1
Industrial Production	1.8	4.0	-1.1	-0.3	2.5	2.5
Capital Formation						
Equipment and Machinery	-1.7	1.0	-3.3	-5.0	-0.7	3.0
Construction	5.0	-0.4	-14.7	-10.7	0.2	2.5
Other	-0.4	2.5	3.8	2.9	-2.7	-1.2
Imports	1.3	1.8	0.3	-1.0	0.3	2.3
Exports	2.0	5.3	3.4	1.1	2.5	2.8
Apparent Steel Use, crude steel equivalent (ACSU)						
in million tonnes	16.445	17.527	14.827	16.842	16.734	16.693
change in million tonnes		1.083	-2.701	2.016	-0.108	-0.042
y-o-y % growth		6.6%	-15.4%	13.6%	-0.6%	-0.2%
% compound growth (2017-2018)						-0.4%
Conversion Coefficient (ASU/ACSU)	0.900	0.900	0.900	0.900	0.900	0.900
Apparent Steel Use, finished steel products (ASU)						
in million tonnes	14.800	15.775	13.344	15.158	15.061	15.023
change in million tonnes		0.975	-2.431	1.814	-0.097	-0.038
y-o-y % growth		6.6%	-15.4%	13.6%	-0.6%	-0.2%
% compound growth (2017-2018)						-0.4%
Real Steel Use, finished steel products (RSU)						
in million tonnes	14.800	15.775	13.344	15.158	15.061	15.023
change in million tonnes		0.975	-2.431	1.814	-0.097	-0.038
y-o-y % growth		6.6%	-15.4%	13.6%	-0.6%	-0.2%
% compound growth (2017-2018)						-0.4%
Change in Stocks (ASU-RSU), million tonnes	0.000	0.000	0.000	0.000	0.000	0.000
Steel Using Sectors, y-o-y % growth						
	Steel Weights	Year the steel weights refer to: 2016				
Construction	22%					
Domestic Appliances	0%					
Electrical Equipment	1%					
Mechanical Machinery	0%					
Metal Products	44%					
Automotive	32%					
Other Transport	0%					
SWIP	100%					

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CANADA

SHORT RANGE OUTLOOK

APRIL 2017 (*FEBRUARY UPDATE*)

A. General Economic Situation

The Canadian economy finished 2016 at just 1.4% above 2015 levels, despite the country falling into the technical definition of a recession in the first half of 2015 (*real gross domestic product contracted for two straight quarters*). Current expectations from the Bank of Canada for 2017 remain somewhat conservative at only +2.1% above last year, while the view for 2018 is essentially flat, at +1.9% year over year. (* *please note that the latest Monetary Policy Report from the Bank of Canada has revised the Canadian GDP forecast upwards to +2.6% YoY since the last SRO submission*)

The lethargy of the last two years can be blamed on falling commodity prices and a resulting pullback in business investment. The chief culprit was the decline in the prices of crude oil, but the effect of crude's pullback, along with that of other commodities, is fading. On the more positive side, while business investment kept contracting this year, it has done so less sharply.

One of the main drivers of growth expectations in 2017 is that crude oil prices have firmed up. Although their future path is still uncertain, they appear to have reached a more balanced spot in relation to global supply and demand, and the probability of another collapse is (hopefully) slim.

The crude oil slump also weakened the Canadian dollar against its U.S. counterpart. The loonie has fallen by about 20% against the U.S. dollar since mid-2014, however, this does not mean it has all been bad news. A cheaper Canadian dollar has been a positive for the tourism industry as well as for many exporting manufacturers. The adjustment in the Canadian economy is likely to continue into 2017, as the Canadian dollar should continue to favour exports (latest forecasts suggest a +2.5% increase in exports this year followed by a +2.8% increase in 2018).

Canadian job creation has been steady since mid-2009. The latest employment figures are 6.9% above pre-recession levels, with a 6.8% unemployment rate. In total there have been just under 1.6 million jobs created in Canada since the recession (*79% full-time, 21% part-time*). Employment growth is expected to continue throughout 2017 and 2018, with forecasted increases of +1.2% and +0.7% respectively.

B. Steel Using Sectors

Automotive

Canadian light vehicle production increased by 3.9% in 2016, though this is relative to a low 2015 that saw several assembly line re-tooling projects, or about 1.6% above the 5-year average (2011-15). Current forecasts have 2017 production decreasing by 10% in Canada as the closure of GM Oshawa #2 plant completes and further reductions and re-tooling takes place at GM Oshawa #1 and FCA Brampton. 2018 is forecast to decline 6%. The long-term trend is in decline as vehicle manufacturers continue to shift production south to the United States and Mexico. In addition to the expected decline in overall vehicle production, Canadian plants are moving away from building cars, instead shifting over to higher profit trucks and cross-over vehicles.

Canadian automotive sales volumes rose above pre-recessionary levels in 2013 and continued to rise, setting a new record in 2016. 2017 is forecast to decline 1.5% and 2018 to decline 1.6%, as a flattening trend sets in, though levels still remain high compared to historic. Contributing factors keeping sales afloat include vehicle replacement demand, new model offerings, dealer incentives, new household formation, improved credit conditions and lower gasoline prices.

From a NAFTA perspective, gradual long-term growth in production and a levelling off of sales at a high level is expected as long as the U.S. economy continues to improve; though uncertainty over the new administration and higher interest rates could have a cooling effect and as noted previously: light vehicle production is expected to decline in Canada.

Construction

Canadian residential housing starts totalled 197,900 units in 2016, which represents an increase of 1.2% compared to 2015's levels (195,500 units). The slowing of real wage growth, increases in new house prices and high consumer debt levels limited growth. Latest forecasts for the Construction sector have housing starts of 202,000 for 2017 and 206,000 units for 2018; these represent steady and modest growth of 2.1% and a 2.0% respectively. In 2017 interest rates are expected to start increasing and inflation is expected to increase, these factors combined with high household indebtedness will limit growth.

Manufacturing

Despite the lower Canadian dollar, manufacturing continued to face challenges in 2016, as investment in machinery and equipment was down 4.1% relative to 2015. The current forecast for 2017 is slightly below 2016's levels (-0.7%), before a strong increase in 2018 (+3.0%). Industrial production saw similar results in 2016, albeit not as negative, with a 0.5% decline relative to 2015's levels. The view for this year and beyond is much more robust, with expectations of growth in both 2017 and 2018 (+3.0% and +2.5% respectively). The steel consumption gains in this segment are expected to parallel the gains in overall manufacturing production.

Pipe and Tube

Crude oil markets are expected to improve as oil prices are increasing and stabilizing in the \$50-\$55 WTI/ barrel dollar range. Oil prices were at \$55 WTI/barrel in Jan with current forecasts for 2017 at \$55 WTI/barrel increasing modestly to \$57WTI /barrel in 2018. The relatively stable prices in January came as oil market participants assessed news and data on the status of supply from countries participating in the production cuts by the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC countries. Most outlooks call for supply and demand equilibrium in 2017. Oil price variations remain as both economic and geopolitical events will continue to impact the energy market.

The Baker Hughes US and Canadian active oil rig count increased with the biggest drilling surge since 2012. In 2016 drilling rigs in Canada finished the year at 157 rigs vs 83 rigs at the end of 2015 which represents a 90% increase. The latest view for 2017 continues this trend, with drilling forecasts estimated to increase with the price of oil gaining some strength and stability. The Canadian Association of Oil Well Drilling Contractors (CAODC) reports 3,562 Wells Drilled for 2016. The forecast for 2017 is 4,665 wells which represents a 30 % increase over 2016 but remains significantly lower than the high of 11,226 wells in 2014.

Historically, about 50% of Canadian tubing production is related to energy markets with the balance made up of mechanical, standard tubing and HSS for automotive, manufacturing and construction markets. 2017 shows indications that it will be a year of strengthening energy markets. The construction (structural) and automotive side of tubular applications are expecting moderate growth. AMD's current forecast has apparent steel consumption in the Canadian Pipe and Tube market growing at 4% in 2017 and 4 % in 2018 (*flat roll only*).

C. Steel Industry Outlook

Steel consumption in the Canadian market finished at roughly 15.2 million tonnes in 2016, which represents an increase of over 13% relative to the 13.4 million tonnes in 2015. Recall that 2015 was adversely affected by a large inventory overhang in the service centre segment, which limited steel consumption levels throughout most of the year, as well as much lower demand from the energy market (driven by the large decline in oil prices). There was also a decline in the automotive sector, a result of an extended Chrysler (Windsor) shutdown as well as vehicle production shifting to the USA and Mexico.

2016 saw strong rebounds from both the energy tubular market as well as the service centre market (*estimated at +34% and +16.5% year-over-year respectively*), while there were continued declines in the Automotive and Construction/Manufacturing segments that partially offset this growth.

Steel consumption is expected to stay relatively flat in 2017, at 15.1 million tonnes, or -0.5% relative to 2016's levels. This view is driven by expectations of continued growth in the Tubular market, but with minimal growth in other end-user segments or in the service centre market. Looking even further out to 2018, the current forecast is roughly 15.0 million tonnes, which would equate to a 0.2% decrease relative to 2017's forecast (*essentially flat*). The main drivers here are expectations of increases in end-user segments (Construction & Tubular) being partially offset with lower Canadian Automotive production / consumption.