September 2022

Industry Trends
Metals and Steel Industry

How serious is the impact of high energy prices on the sector´s credit risk?

In this issue ...

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Metals and steel industry performance per market

September 2022

Austria	Slovakia	Australia
Belgium	Spain	China
Czech Rep.	Sweden	Hong Kong
Denmark	Switzerland	India
France	Turkey	Indonesia
Germany	United Kingdom	Japan
Hungary		New Zealand
Ireland	Brazil	Singapore
Italy	Canada	South Korea
The Netherlands	Mexico	Taiwan
Poland	USA	Thailand
Portugal		United Arab Emirates

On the following pages we indicate the general outlook for each sector featured using these symbols:

Excellent
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend

Good
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend

Fair
The credit risk situation in the sector is average / business performance in the sector is stable

Poor
The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend

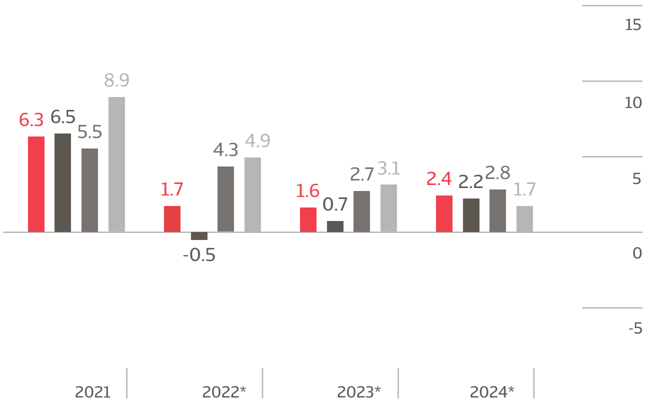
Bleak
The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend

Global metals and steel – performance at a glance

Global metals and steel output

Slower growth rates in 2022 and 2023 after a strong rebound in 2021

y-on-y, % change



*forecast

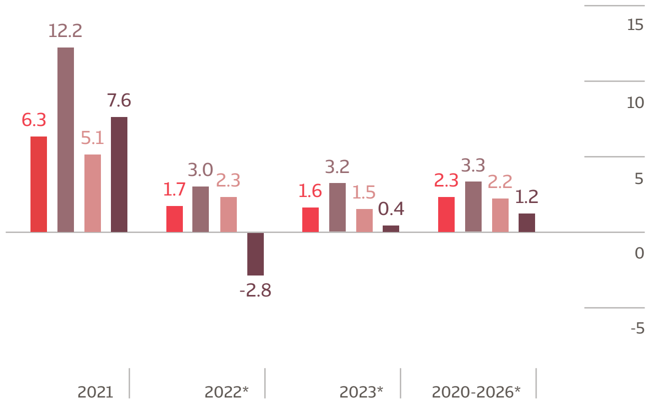
Source: Oxford Economics

Basic metals
Non-ferrous metals
Iron and steel
Casting

Metals and steel output per region

Impact of the war in Ukraine negatively affects output forecast for Europe

y-on-y, % change



*forecast

Source: Oxford Economics

World
Americas
Asia-Pacific
Europe

Global metals and steel

Short-term outlook: strengths and growth drivers

- **Strong rebound and higher sales prices in the recent past:** Many metals and steel businesses in advanced market have benefited from strong pent-up-demand and high sales prices in 2021 and early 2022. This resulted in higher profit margins and increased financial resilience.
- **Trade liberalisation:** The partial scaling back of Section 232 tariffs for EU aluminium and steel imports by the US should support production and exports from Europe.
- **Fiscal stimulus:** Supports metals and steel demand in key markets like the US and China.

Short-term outlook: downside risks

- **War in Ukraine:** A longer-lasting war in Ukraine will negatively affect the sector performance in Europe into 2023, as high energy prices would continue to weigh on metals and steel production, while the weaker economic performance in many countries impacts demand from key buyer industries.
- **Supply chain issues:** demand for metals and steel could be stronger if supply chain bottlenecks were not still impacting key buyer industries (automotive, construction).
- **Aggressive monetary tightening continues:** This would lead to even weaker consumer spending and deteriorating investments. Key buyer industries like automotive, construction and engineering are cyclical sectors and strongly investment-driven.

Belgium
Increasing insolvencies – but from a historically low level

The economic performance in the Eurozone and in Belgium has worsened due to the impact of the war in Ukraine, and we expect Belgian industrial production to contract by more than 3% this year, while construction output should level off. This will negatively affect domestic demand of metals and steel from key buyer industries, with the notable exception of heating pumps and the solar producing sector. Metals and steel output is forecast to grow by only 2.1% in 2022 after a 2.5% contraction last year.

Other factors with an adverse impact on metals and steel performance include ongoing supply chain issues and elevated prices for raw materials, transport and energy (gas). Labour costs are also increasing due to a lack of skilled staff and the automatic wage indexation in times of high inflation. Passing on higher input costs (in particular for energy) to end-buyers is difficult in the current market environment, and therefore pressure on the margins of metals and steel businesses´ is rising. High gas prices, though, have accelerated the transition towards more efficient use of energy and production processes.

Payments in the Belgian metals and steel industry take 90 days on average, and payment behavior in the sector has been good during the past two years. Due to deteriorating margins and lower demand, we observe an increase in both payment delays and business failures, although from a historically low level seen in 2020 and in 2021, when pandemic-related fiscal support sustained all industries. We see a higher risk of business failures for metals and steel companies dependent on construction and transport – because both sectors currently record insolvency numbers above average. We expect a 30% increase in metals and steel insolvencies after double-digit decreases in 2020 and in 2021.

Our underwriting stance remains open to neutral for metals and steel for the time being, as the expected increase in payment delays and insolvencies starts from a very low level, returning to “normal” numbers seen prior to the pandemic. However, persistently high prices for energy due to a longer-lasting war in Ukraine and an advanced economic recession in the Eurozone remain downside risks for the outlook. In such a scenario, metals and steel output could contract by more than 3% in 2023.

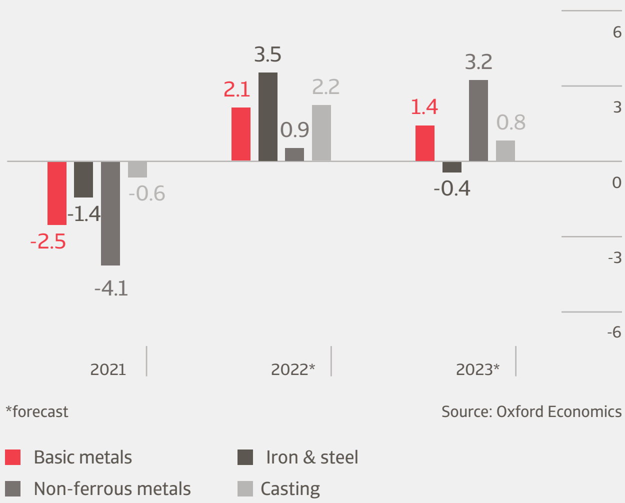
Performance forecast along subsectors

Iron & steel	Non-ferrous metals	Castings of metals

Source: Atradius

Belgium metals and steel output

y-on-y, % change



Belgium metals and steel - credit risk assessment

Fair

Business conditions	Financing conditions		Default assessment
Demand situation (sales)	Overall indebtedness of the sector	high	- Non-payments over the last 12 months
- Profit margins: trend over the next 12 months	Dependence on bank finance	high	- Non-payments over the next 12 months
	Willingness of banks to provide credit	high	- Insolvencies over the last 12 months
			- Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

China

Lockdowns and woes in the real estate sector weigh on the industry

Demand for metals and steel remains subdued in China due to pandemic-related local lockdowns, while ongoing problems in the real estate sector affect construction activity. In 2022, steel demand is expected to decrease 0.7% to 947 million tons, following a 4.7% decline in 2021. According to the National Bureau of Statistics of China (NBS), property investment declined 4% year-on-year between January and May 2022. Measures like loosening monetary policy and easing financing restrictions in the property sector will cushion but not reverse the downward trend in construction activity and related metals and steel demand.

Metals and steel demand from automotive has started to increase again as the car industry has rebounded from several lockdowns and vehicle sales are supported by government initiatives. However, this surge in demand remains shaky in the current economic environment and cannot compensate losses from the construction decline.

Overcapacity remains a problem in the steel sector despite efforts to deal with the issue. About 700 small steel mills, with 140 million tons of steel capacity deemed sub-standard, have shut down since 2016. Another 150 million tons of inefficient capacity at larger firms has also gone. However, steel production continues to climb, outpacing demand.

Increasing costs and falling steel prices have eroded the margins of many businesses. According to the NBS, profits in the metals industry decreased 34% year-on-year in H1 of 2022, with profits in the iron & steel segment declining 69%. The government is pushing steel mills to shift to lower carbon equipment and processes, which adds pressure on liquidity and margins.

Payments in the Chinese metals and steel industry take between 60 days and 120 days, and payment behavior has been poor during the past two years. Given subdued demand and late payment from downstream sectors like construction, the number of protracted payments is high. Metals and steel businesses are often highly leveraged, while banks are reluctant to provide loans. In 2022, double-digit increases in the number of non-payments and business cannot be ruled out. This, together with overcapacities, imbalanced product structures, eroding margins and high gearing has led us to assess the credit risk situation of the industry as “Bleak”.

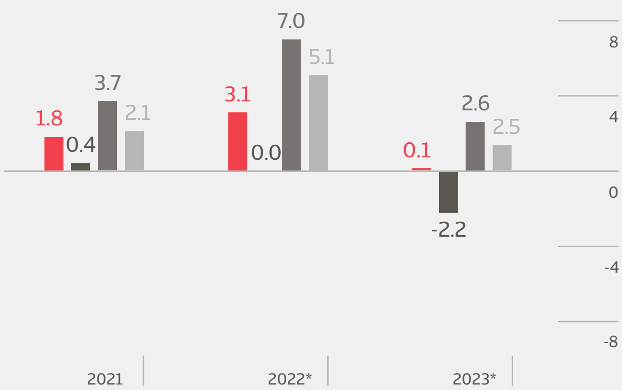
Performance forecast along subsectors

Iron & steel	Non-ferrous metals	Castings of metals

Source: Atradius

China metals and steel output

y-on-y, % change



*forecast

Source: Oxford Economics

Basic metals · Iron & steel · Non-ferrous metals · Casting

China metals and steel - credit risk assessment

Bleak

Business conditions	Financing conditions		Default assessment
- Demand situation (sales)	Overall indebtedness of the sector?	high	- Non-payments over the last 12 months
- Profit margins: trend over the next 12 months	Dependence on bank finance	high	- Non-payments over the next 12 months
	Willingness of banks to provide credit	very low	- Insolvencies over the last 12 months
			- Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

Czech Republic

Shortage of gas supplies is a major downside risk

In 2021, the industry recorded a strong rebound. In H1 of 2022 demand for metals and steel benefited from a stable performance of construction and machines/engineering. Demand from automotive was weak in early 2021 but has improved since Q2. However, we expect Czaech industrial production to slow down in the coming months, due to weaker demand from the Eurozone, supply chain issues and high energy costs.

After increasing their margins in 2021, Czech metals and steel businesses should see a deterioration in 2022 and in early 2023. High transport and energy prices affect the sector performance, while the EU emissions trading system is an additional burden. In order to compensate for iron ore and other commodities provided from Ukraine before the Russian invasion, metals and steel producers had to find alternative supply sources. So far, the majority of businesses have been able to pass on higher energy prices to their buyers, at least to some extent. However, pressure is mounting, as energy prices are likely to remain very high in the coming months. Some metals and steel producers consider curbing their output, as profitability is at stake. Fiscal support to the sector remains limited, which could result in less competitiveness against peer businesses from abroad.

Payments in the Czech metals and steel industry take 30-60 days on average, and payment behavior in the industry has been good during the past two years, with a low number of insolvencies. The payment and insolvency development in the coming months largely depends on energy prices and availability of gas. Should Russia sharply reduce or even stop gas supplies, the impact on the sector´s credit risk would be serious, probably leading to a high number of defaults. In such a scenario, we would expect metals and steel output to contract by 0.5% in 2023.

For the time being, our underwriting stance remains neutral across all major metals and steel subsectors, considering the good performance seen in 2021 and early 2022. However, we closely monitor developments in the energy market. We also observe the debt structure of companies after the recent interest rate increases, which results in higher financial costs for leveraged businesses.

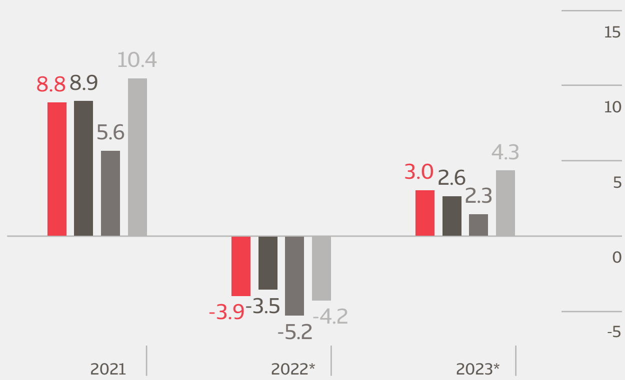
Performance forecast along subsectors

Iron & steel	Non-ferrous metals	Castings of metals

Source: Atradius

Czech Republic metals and steel output

y-on-y, % change



*forecast

Source: Oxford Economics

Basic metals · Iron & steel · Non-ferrous metals · Casting

Czech Republic metals and steel - credit risk assessment

Fair

Business conditions	Financing conditions		Default assessment
Demand situation (sales)	Overall indebtedness of the sector?	average	Non-payments over the last 12 months
- Profit margins: trend over the next 12 months	Dependence on bank finance	average	- Non-payments over the next 12 months
	Willingness of banks to provide credit	average	Insolvencies over the last 12 months
			Insolvencies over the next 12 months

big increase · increase · stable · decrease · big decrease

Source: Atradius

France
Only a slight increase in business failures expected

After a dynamic performance in H2 of 2021 and in Q1 of 2022, demand for metals and steel has slowed down. Automotive is struggling with lower demand and production issues, while construction activity slows down due high raw material prices and project delays. That said, demand from aircraft construction is robust, which mainly benefits aluminium producers and wholesalers.

In 2021 and early 2022 metals and steel businesses have been able to pass on higher commodity and energy costs, because limited supply forced buyers to accept price increases. This has led to higher margins, in particular for metals and steel traders. With sharply increased oil and gas prices after Russia´s invasion in Ukraine, the French state has taken measures (caps and subsidies) to curb energy prices for business and consumers alike. However, despite this support, lower demand should trigger metals and steel businesses´ margins to deteriorate in the coming twelve months. After a peak in March, sales prices have significantly decreased, resulting in working capital requirement issues for traders who need to manage inventories.

Payments in the French metals and steel industry take 60 days on average, and the number of payment delays and insolvencies has been very low in 2021 and H1 of 2022, due to pandemic-related state support. We expect that business failures will increase in the coming months by about 4%-6%, as they return to "normal levels" seen prior to the pandemic. Smaller metal manufacturers with deteriorating margins are likely to be most affected because they have more difficulties than their larger peers in passing on price increases. Default risk is also higher for businesses that face issues in financing their working capital requirements in times of lower demand and the expiry of Covid-related state-backed loans.

Despite more challenges ahead, our underwriting stance is in general neutral for steel and metals, as the industry is historically resilient, state support continues, and we expect no major increase in payment defaults and business failures. We are open for the iron and steel and the non-ferrous metals segment, the latter benefitting from the rebound in the aircraft industry. We remain restrictive for the casting subsector, which traditionally shows weaknesses like thin margins and strong competition.

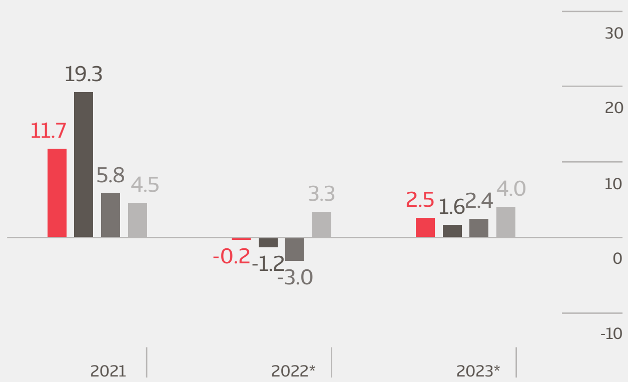
Performance forecast along subsectors

Iron & steel	Non-ferrous metals	Castings of metals

Source: Atradius

France metals and steel output

y-on-y, % change



*forecast

Source: Oxford Economics

Basic metals
Iron & steel
Non-ferrous metals
Casting

France metals and steel - credit risk assessment

Fair

Business conditions	Financing conditions		Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector?	high	Non-payments over the last 12 months
- Profit margins: trend over the next 12 months	Dependence on bank finance	very high	- Non-payments over the next 12 months
	Willingness of banks to provide credit	average	Insolvencies over the last 12 months
			- Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

Germany

Gas supply is the key issue

The German metals and steel sector rebounded in 2021 and early 2022, due to a high amount of orders from key buyer industries as well as the domestic economic recovery. However, supply chain bottlenecks and shortage of raw materials dampened a stronger rebound of the industry. Most metals and steel producers have been able to pass on higher commodity prices to their buyers, with the notable exception of suppliers to the automotive industry. Profit margins of most businesses in the metals and steel sector improved in 2021 and in Q1 of 2022.

Due to the economic repercussions of the war in Ukraine, the industry is currently facing several challenges. Increased uncertainty and supply chain issues in the manufacturing sector are likely to weigh on investment spending and dampen metals and steel output this year, forecast to contract 1.6%.

Most metals and steel producers have been able to pass on a large share of high energy (gas) prices to their customers. The sharply increased costs, however, have begun to burden metals and steel businesses´ performance and results, in particular affecting companies with already restrained liquidity. Producers are cutting back output and reducing inventory. Due to the combination of weakening demand and persistent global overcapacities in the steel segment, wholesalers could get in troubles due to high levels of stocks, probably facing depreciations towards the end of the year.

Performance forecast along subsectors

Iron & steel	Non-ferrous metals	Castings of metals

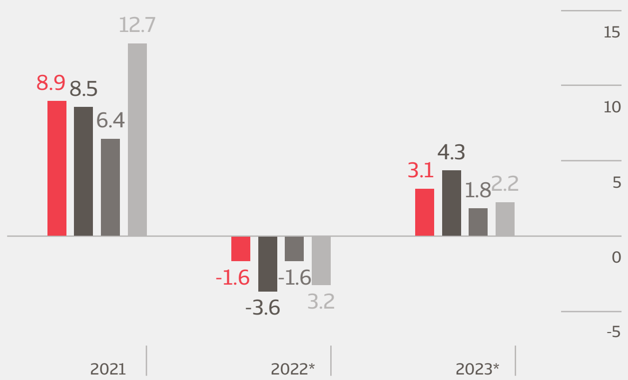
Source: Atradius

Payments take 30-45 days on average but can last up to 90 days in some cases. Payment behavior in the industry has been good during the past two years. However, due to the current major issues (supply bottlenecks, high energy prices, and economic slowdown in Germany and the Eurozone) we expect that both payment delays and business failures will increase in the coming twelve months, back to “normal” levels seen prior to the pandemic.

Should Russia sharply reduce or even stop gas supplies, the impact on the sector´s credit risk would be serious, probably leading to a high number of defaults. In such a scenario, we would expect metals and steel output to contract by 2% in 2022 and 1.7% in 2023. For the time being, our underwriting stance is still open to neutral for the steel, non-ferrous metals and metal manufacturing segments. However, we are more cautious for casting businesses due to the burden of high energy costs.

Germany metals and steel output

y-on-y, % change



*forecast

Source: Oxford Economics

Basic metals
Iron & steel
Non-ferrous metals
Casting

Germany metals and steel - credit risk assessment

Fair

Business conditions	Financing conditions		Default assessment
Demand situation (sales)	Overall indebtedness of the sector?	average	Non-payments over the last 12 months
- Profit margins: trend over the next 12 months	Dependence on bank finance	average	- Non-payments over the next 12 months
	Willingness of banks to provide credit	high	Insolvencies over the last 12 months
			- Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

India

Higher sales prices do not yet compensate for rise in input prices

The Indian metals and steel sector benefits from robust demand from key buyer sectors like automotive, construction, and increased government spending in infrastructure improvement (construction of roads, railways, ports and airports) worth USD 1.4 trillion between 2020 and 2025.

However, supply chain disruptions and high input prices are issues because metals and steel sales prices have not increased enough to compensate for the rise in energy and raw material costs (coking and thermal coal, refractories and ferroalloys). While the Indian government removed import duties on raw materials like coking coal in May, it has also imposed export duties on steel products, to curb inflation and to increase supply in the domestic market. The resulting excess capacity triggered a price decrease of about 20% for finished steel goods. Therefore, the increase in profit margins seen in 2021 will not continue in 2022. That said, the government is likely to cut or abolish the duties again, which should help to support exports of key steel products, and partly compensate for sales price decreases in the domestic market. The EU´s ban on steel imports from Russia should provide opportunities for Indian steel exporters.

Payments in the Indian metals and steel sector take 90-120 days on average. Businesses have performed well during the past two years, improving their financial risk profile. At the same time, a consolidation process has seen stronger businesses taking over stressed assets and insolvent peers. We expect the number of protracted payments to remain steady during the coming twelve months, with no substantial increase in insolvencies.

Currently we assess the credit risk situation of the Indian metals and steel sector as “Fair” across all segments, because high raw material prices still have a moderating effect on margins. However, export growth should accelerate in the coming months, leading to higher sales prices. Despite improved financial strength, most businesses are highly geared, due to high dependence on bank loans and other forms of external financing for capital expenditure. In the short-term, working capital requirements could increase on the back of higher input costs.

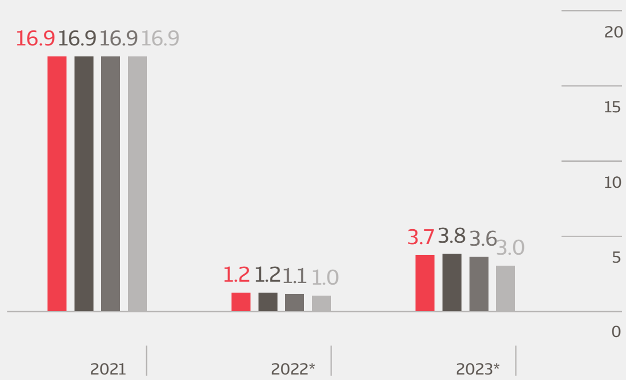
Performance forecast along subsectors

Iron & steel	Non-ferrous metals	Castings of metals

Source: Atradius

India metals and steel output

y-on-y, % change



*forecast

Source: Oxford Economics

Basic metals
Iron & steel
Non-ferrous metals
Casting

India metals and steel - credit risk assessment

Fair

Business conditions	Financing conditions		Default assessment
Demand situation (sales)	Overall indebtedness of the sector?	high	Non-payments over the last 12 months
Profit margins: trend over the next 12 months	Dependence on bank finance	high	Non-payments over the next 12 months
	Willingness of banks to provide credit	average	Insolvencies over the last 12 months
			Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

Italy

Many businesses are financially resilient after a good performance in 2021

In 2021 and Q1 of 2022, metals and steel output and sales grew strongly. However, this started to reverse in Q2 in 2022. The outbreak of the war in Ukraine caused some panic buying in March and April, followed by a slowdown in May and June amid de-stocking activities. We expect that demand from automotive will remain lower in the coming months but remain higher from engineering and construction.

Due to the high level of demand in 2021 and Q1 of 2022, the majority of metals and steel producers could easily pass on higher input prices for raw materials and energy to their customers, and significantly increase their profit margins. The same goes for distributors, although at a lower level. Many metals and steel businesses recorded positive cash flows in 2021 and early 2002, leading to lower debt levels. However, ongoing de-stocking activities and the slowdown in demand have clouded prospects. Businesses´ margins should remain stable at best in the coming months.

Payments in the industry take 110 days on average, and payment behavior has been good during the past two years. However, there will be less liquidity available, due to the combination of lower demand and high energy prices. Businesses, which have generated large profits and cash in 2021, should be more resilient. Currently, we expect just a slight increase in payment delays and business failures in the coming twelve months. However, an extended war in the Ukraine and a recession in the Eurozone, leading to a combination of curtailed gas supply and sharply deteriorating demand, could trigger a contraction of metals and steel output of about 1.5% in 2022 and 5% in 2023. This would result in more business failures than currently expected.

Given the robust performance and profit growth in 2021, we still assess the credit risk situation of the industry as rather good. This mainly accounts for the iron and steel segment, which generated satisfactory cash flows. We assess the credit risk of the non-ferrous segment as neutral. The performance of aluminium and copper producers in 2021 was good in terms of margins, but often resulted in negative cash flows due to higher working capital requirements. We are more restrictive with businesses active in the casting segment, which is highly dependent on automotive, and will be negatively affected by the ongoing transition towards e-mobility.

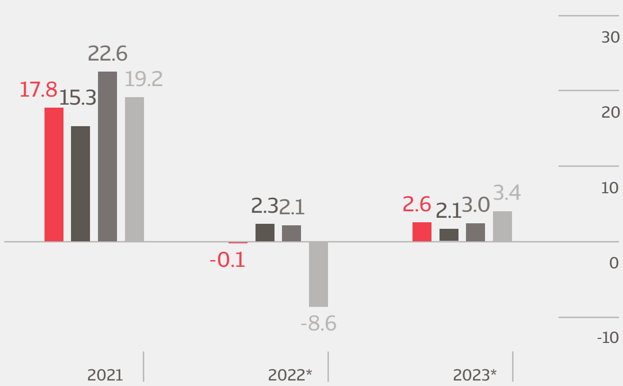
Performance forecast along subsectors

Iron & steel	Non-ferrous metals	Castings of metals

Source: Atradius

Italy metals and steel output

y-on-y, % change



*forecast

Source: Oxford Economics

Basic metals · Iron & steel · Non-ferrous metals · Casting

Italy metals and steel - credit risk assessmen

Good

Business conditions		Financing conditions		Default assessment	
Demand situation (sales)		Overall indebtedness of the sector?	average	Non-payments over the last 12 months	
Profit margins: trend over the next 12 months		Dependence on bank finance	average	Non-payments over the next 12 months	
		Willingness of banks to provide credit	high	Insolvencies over the last 12 months	
				Insolvencies over the next 12 months	

big increase · increase · stable · decrease · big decrease

Source: Atradius

The Netherlands

Still robust demand from construction, but downside risks persist

Although the steel and metals sector accounts for just about 1% of Dutch GDP, it is important as a leading supplier for construction, automotive and machinery. The industry is highly dependent on domestic construction sector performance. Additionally, many metals businesses are oriented towards exports.

The industry still benefits from ongoing good demand and filled order books (e.g output of construction as a major buyer sector is forecast to increase 6.5% this year). However, Dutch businesses are increasingly reluctant to invest due to the ongoing geopolitical uncertainty, supply chain bottlenecks and higher interest rates. An enduring war in the Ukraine and persistent disruption of the energy market could lead to a contraction of about 2% of metals and steel sales.

After recording profit margin increases in 2021 and in Q1 of 2022, metals and steel producers face increasing pressure on their margins due to the very high energy prices, which are difficult to be passed on entirely to customers. Some companies have already started scaling down their capacity and/or finding alternative energy solutions, reducing gas dependency.

Length of payments in the Dutch metals and steel sector largely depends on the position of individual businesses in the supply chain, but usually takes about 60 days on average. Payment behaviour has been good and the number of insolvencies low during the past two years, helped by Covid-related fiscal stimulus for Dutch businesses. However, as fiscal support expired at the end of March 2022, and with a negative impact of the war in Ukraine on Dutch economic performance, we expect both payment delays and insolvencies to increase in the coming twelve months. The amount of that increase is currently hard to assess with the ongoing economic uncertainties.

Taking this into account, but also noting that there are sufficient order backlogs at hand, that most businesses are not overly leveraged and that banks are still willing to provide loans, we currently assess the credit risk situation of the Dutch metals and steel industry as “Fair”.

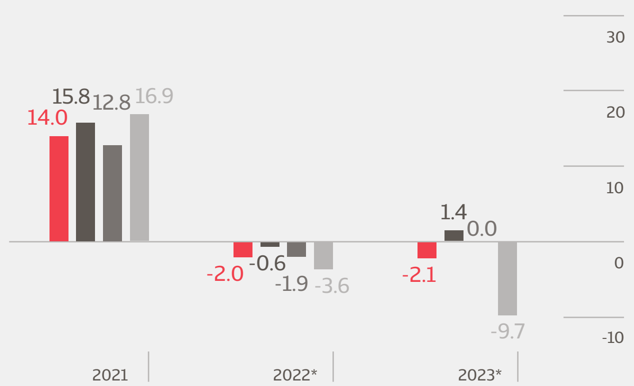
Performance forecast along subsectors

Iron & steel	Non-ferrous metals	Castings of metals

Source: Atradius

The Netherlands metals and steel output

y-on-y, % change



*forecast

Source: Oxford Economics

Basic metals
Iron & steel
Non-ferrous metals
Casting

The Netherlands metals and steel - credit risk assessment

Fair

Business conditions		Financing conditions		Default assessment	
+ Demand situation (sales)		Overall indebtedness of the sector?	average	Non-payments over the last 12 months	
Profit margins: trend over the next 12 months		Dependence on bank finance	average	- Non-payments over the next 12 months	
		Willingness of banks to provide credit	high	- Insolvencies over the last 12 months	
				- Insolvencies over the next 12 months	

big increase | increase | stable | decrease | big decrease

Source: Atradius

Poland

Financially resilient businesses, but downside risks loom

In 2021 and in January-April of 2022 metals and steel sector output and sales grew strongly, with elevated sales prices and historically high profits. This was due to pent-up demand after the height of the pandemic, followed by sharply increased purchases immediately after Russia´s invasion in Ukraine. However, metals and steel demand has slowed down since then, due to high stocks held by many customers and less orders, in particular from automotive and residential construction. This will make it more difficult to pass on higher input costs in the coming months, leading to decreasing margins. The decrease in steel prices since May will force distributors to sell off inventory at prices below purchase rates.

Payments in the industry take 60 days on average, and payment behavior has very been good during the past 18 months, because customers had to pay promptly in times of high demand and limited supply. After the very low levels seen during the past twelve months, we expect both payment delays and insolvencies to increase as demand shrinks, metals and steel prices decline, and fiscal support schemes have expired. However, we do not expect a severe credit risk deterioration, because many businesses in the industry are financially resilient after almost two years of robust growth and high profits. Additionally, sufficient gas supply does not seem to be an issue, despite the stop of Russian supplies to Poland in April. Our underwriting stance is neutral across all major subsectors, due to the current mix of strengths (businesses´ financial situation) and weaknesses (decreasing demand, high energy prices).

That said, there are downside risks, which could lead to higher insolvencies numbers than currently expected. One would be a serious deterioration of German buyers as a major customer segment. Another would be sharp monetary tightening by the Polish Central Bank in order to curb inflation. A third potential setback would be a delay in payments from the EU recovery funds, because of an ongoing dispute between the European Commission and the Polish government about rule-of-law issues. This would affect the economic recovery and infrastructure construction, the largest buyer of steel in the Polish market.

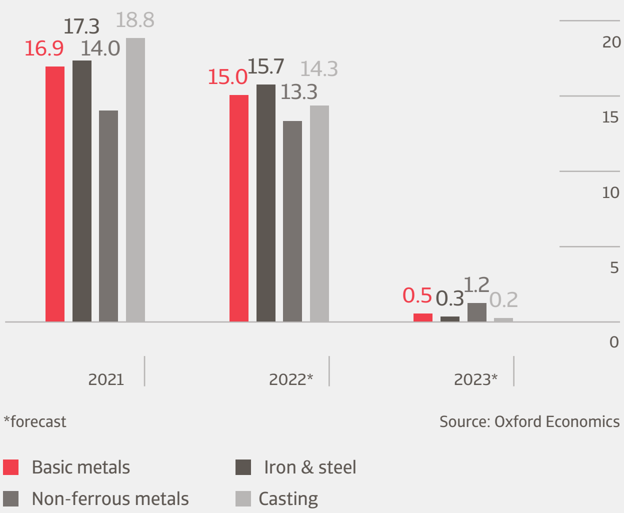
Performance forecast along subsectors

Iron & steel	Non-ferrous metals	Castings of metals

Source: Atradius

Poland metals and steel output

y-on-y, % change



*forecast

Source: Oxford Economics

Poland metals and steel - credit risk assessment

Fair

Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector? average	Non-payments over the last 12 months
- Profit margins: trend over the next 12 months	Dependence on bank finance average	- Non-payments over the next 12 months
	Willingness of banks to provide credit high	+ Insolvencies over the last 12 months
		- Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

United Kingdom

Payment delays and defaults have started to increase in the industry

In 2021 and early 2022 the industry recorded solid pent-up demand, but supply bottlenecks remained an issue. Metals and steel sales prices sharply increased in 2021 and in Q1 of 2022, peaking immediately after Russia´s invasion of Ukraine in February. The price surge has driven up margins of many steel stockholders and service centers, which were able to buy in at low cost and then sell on at higher prices. Many businesses have used this opportunity to deleverage, considerably improving their balance sheets.

At the same time, however, the sharp energy and commodity price acceleration has affected some metal and steel manufacturers who have not been able to pass-on hiked input costs. In particular, many businesses supplying the construction industry (e.g. with structural steel) hold fixed contracts, and the lack of flexibility to pass on price increases has hampered profit margins.

Currently, metals and steel output and sales are increasingly affected by a more sluggish economic performance, with persistently high inflation and interest rate increases weighing on activity. UK industrial production is expected to slow down to 2% in 2022, and to 0.6% in 2023. Metals and steel businesses dependent on automotive and aerospace face lower demand and project deferrals caused by supply chain issues. While fiscal stimulus sustains infrastructure and residential building, high input costs should trigger a slowdown of construction activity in H2 of 2022 and into 2023.

Payments in the industry take 90 days on average. Payment delays and defaults have started to increase, and this adverse trend will continue in the coming months. Credit risk has increased for smaller downstream businesses who face competitive undercutting on pricing, while facing higher overhead costs. Deteriorating demand leaves many service centers heavily stocked and vulnerable to further devaluation. Business failures could increase by about 30% year-on-year in the coming twelve months, but this surge is from historically low numbers recorded in 2020 and in 2021, caused by insolvency moratoriums and massive fiscal support. Our underwriting stance is generally open for the non-ferrous metals subsector, while being neutral for iron and steel. We are restrictive regarding the casting and metals manufacturing segments.

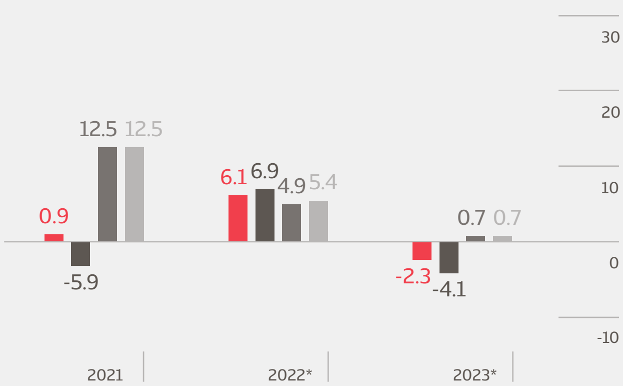
Performance forecast along subsectors

Iron & steel	Non-ferrous metals	Castings of metals

Source: Atradius

United Kingdom metals and steel output

y-on-y, % change



*forecast

Source: Oxford Economics

Basic metals
Iron & steel
Non-ferrous metals
Casting

United Kingdom metals and steel - credit risk assessment

Fair

Business conditions		Financing conditions		Default assessment	
Demand situation (sales)		Overall indebtedness of the sector?	high	- Non-payments over the last 12 months	
- Profit margins: trend over the next 12 months		Dependence on bank finance	high	- Non-payments over the next 12 months	
		Willingness of banks to provide credit	average	- Insolvencies over the last 12 months	
				- Insolvencies over the next 12 months	

big increase | increase | stable | decrease | big decrease

Source: Atradius

United States

Robust demand situation set to continue

After a very high growth rate in 2021, US metals and steel output is expected to increase by about 5% this year, driven by ongoing robust demand, mainly from residential construction, aerospace/ transportation and engineering. However, the decrease in automotive sales in H1 of 2022 indicates diminishing demand for high priced, metal-intensive consumer products, given high fuel costs and consumer price inflation. Order backlogs persist amid supply chain constraints. While oil and gas prices have sharply increased, the robust demand enables metals and steel businesses to pass on higher input prices. The industry benefits from the fact that some US manufacturers have moved production back home in order to avoid further supply chain disruptions and to improve price stability.

That said, the US metals and steel industry is facing increased competition from EU peers in its domestic market, due to the partial scaling back of Section 232 tariffs for EU imports and the weaker EUR compared to the USD. This will cap domestic production growth in 2023, when we expect production to increase by about 3%.

Persistent high inflation remains a downside risk, as it could trigger more aggressive monetary tightening by the Federal Reserve. A hard economic landing would result in decreasing consumption and investment, dampening metals and steel demand. In such a scenario, we would expect metals and steel output to contract by about 1% in 2023.

Payment duration in the metals and steel sector has improved to 45 days on average in 2022, compared to 81 days in 2021, because most buyers could not demand longer payment terms in a market environment of high demand coupled with supply issues. However, a majority of businesses anticipate longer payment terms to return in the mid-term. The amount of non-payments and insolvencies has been low in 2021 and H1 of 2022, and we expect no deterioration in the coming twelve months. While metals and steel businesses are highly dependent on bank financing, gearing of businesses is generally stable. Banks are willing to provide loans to capital-intensive metals and steel businesses that are consistently profitable. Our underwriting stance remains neutral across all main subsectors (iron and steel, non-ferrous metals, casting and metals manufacturing).

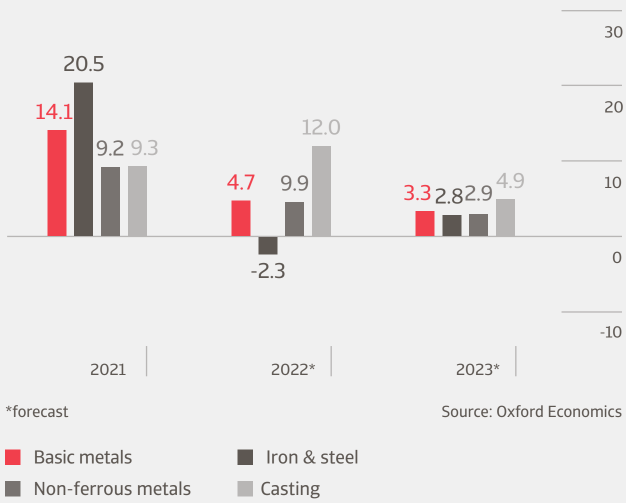
Performance forecast along subsectors

Iron & steel	Non-ferrous metals	Castings of metals
Fair	Fair	Fair

Source: Atradius

United States metals and steel output

y-on-y, % change



*forecast

Source: Oxford Economics

United States metals and steel - credit risk assessment

Fair

Business conditions		Financing conditions		Default assessment	
+ Demand situation (sales)	increase	Overall indebtedness of the sector?	average	- Non-payments over the last 12 months	decrease
Profit margins: trend over the next 12 months	stable	Dependence on bank finance	high	Non-payments over the next 12 months	stable
		Willingness of banks to provide credit	high	Insolvencies over the last 12 months	stable
				Insolvencies over the next 12 months	stable

big increase | increase | stable | decrease | big decrease

Source: Atradius

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Atradius N.V.
David Ricardostraat 1 · 1066 JS Amsterdam
Postbus 8982 · 1006 JD Amsterdam
The Netherlands
Phone: +31 20 553 9111

info@atradius.com
www.atradius.com