



3 PILLARS

OF SUSTAINABLE DEVELOPMENT

THE ECONOMIC SCENARIO

2018 TO 2020



The three-year period between 2018 and 2020 was characterized by significant limits to economic growth which seriously affected the lives of Brazilians.

In May of 2018 there was a trucker's strike that left Brazil practically paralyzed and negatively affected the flow of raw materials, supplies, and final products along production chains.

In January of 2019, the dam collapse in Brumadinho, in the Brazilian state of Minas Gerais was a tragic episode that put mining activity in the public eye. Brazil's National Mining Agency came to require a Stability Condition Statement as a result of the accident and many mines and dams/reservoirs had their operations interrupted or reduced until they were able to meet the new requirements, which created uncertainty with regards to iron ore supply.

In 2020, the COVID-19 pandemic arrived in Brazil. Social distancing measures, essential to reducing the spread of the disease, resulted, in March and April of 2020, in a marked decrease in demand for products and services, as well as the temporary suspension of activities in production facilities.

The events of 2018 and 2019 brought temporary disequilibrium and a reduction in performance to the Brazilian economy. Macroeconomic indicators did not present a significant deterioration since the economy grew by 1.8% and 1.4% according to the National Transport Confederation (CNT) and The Brazilian Institute of Geography and Statistics (IBGE), respectively. However, the effects of the COVID-19 pandemic were more intense and occurred throughout practically all economic sectors.

The negative impacts of the pandemic on economic activity caused Brazil's GDP to retract by 2.2% and 9.2% in the first and second quarters of 2020, respectively, when compared to previous respective quarters. However, recovery in the economy also took place more quickly than forecast. This movement resulted in a 7.8% increase in Brazil's GDP in the third quarter and a 3.2% increase in the fourth quarter in 2020, when compared to previous respective quarters.

The combination of a significant decrease in economic activity in the first half of 2020, with a restart coming only in the second half of the year, resulted in a retraction of 4.1% in Brazil's GDP in 2020 when compared to that registered the year before.

The scenario of a recovery in the economy was a global phenomenon resulting in increases in international commodity prices, which put pressure on production costs. In the case of Brazil, wholesale inflation, measured by the Producer Price Index - Internal Availability (IPA-DI) released by the Getúlio Vargas Foundation (FGV), was 31.7% on the year. Part of the pressure on costs was absorbed by the production sector due to the inherent difficulty of passing prices on to the consumer, leaving the average inflation measured by The Extended National Consumer Price Index (IPCA, published by IBGE) at 4.5%.

However, the Brazilian economy, during the final year of the 2018 - 2020 period, backtracked on the gains it had made in the previous two years, with a loss in production and an increase in unemployment and inflation in a scenario marked by a deterioration in the country's fiscal situation.

The Brazilian industry needs to operate with a competitive isonomy in relation to its competitors in the domestic and overseas markets (with imports) and interrupt the trend towards a reduction in its participation in Brazil's GDP. Reducing what is known as 'Brazil cost' is a crucial factor in sustained economic development.

The steel industry – 2018 - 2020

The steel industry showed resilience during the 2018 - 2020 period. The sector was faced with many challenges, such as difficulties in receiving raw materials and bottlenecks in the flow of its final products in 2018 and 2019, as well as an increase in the prices of raw materials and inputs in a scenario of disequilibrium between demand and market supply in 2020.

In May of 2018, the trucker's strike in Brazil brought instantaneous impacts to the flow of raw materials and final products throughout the entire production chain. In the case of the steel industry, the negative impacts were apparent in indicators for May, which showed a 9.0% decrease in crude steel production in comparison to the month before. This drop was almost entirely reversed in June. Issues in the flow of final products was felt with greater intensity in the steel producing sector's domestic sales. This indicator saw a decrease of 23.1% in May in relation to April with a quick recovery in June (+53.3% when compared to May).

Even with the problems caused by the trucker's strike, crude steel production grew by 1.8% in 2018, reaching 35.4 million tons. Domestic sales increased by 9.7% to 18.9 million tons. The apparent consumption of steel products saw advances of 8.6% in the same year, reaching 21.2 million tons. Exports decreased by 9.2% (13.9 million tons) and imports increased by 3.3% (2.4 million tons) during the same period.

At the beginning of 2019 (the 25th of January), there was a dam collapse in Brumadinho, Minas Gerais, which was subsequently followed by a suspension of activities in all of Vale's mines. This situation led to difficulties in supplying steelworks with iron ore. By February of 2019, there had already been a 9.1% drop in crude steel production in comparison to the previous month. Despite a rebound in the months of March (+4.8%) and April (+3.2%), using the same comparison base, this movement was not sustained, resulting in an 8.0% drop in production in 2019, at a total of 32.6 million tons.

Domestic sales were less impacted since the flow of steel products was able to be maintained at normal levels. This indicator grew by 5.3% in February and 9.6% in March of 2019. However, with the subsequent economic slowdown occurring, domestic sales closed out the year with a drop of 0.6% (down to 18.8 million tons), while apparent consumption fell 1.1% (to 21.0 million tons). Exports continued to decrease at a pace similar to that of 2018, dropping 8.2% to 12.8 million tons. Imports decreased by 1.7% to 2.4 million tons during the same period.

In 2020, soon after the first signs of the Covid-19 spreading throughout Brazil in March and April, orders from steel consumer sectors began to be canceled and dropped sharply. Domestic sales decreased 34.4% in April relative to the previous month.

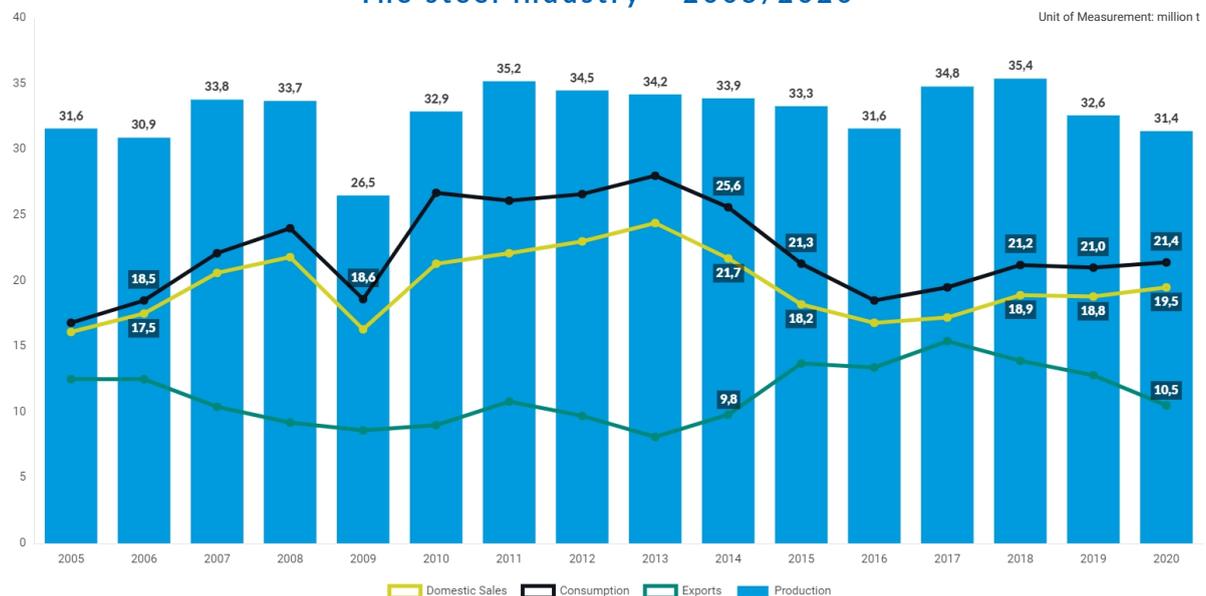
The priority for companies across all sectors during this period was to protect their bottom line and, as a result, they did not make any orders and relied on their own inventories. The reduction in economic activity was such that steel industry needed to turn off eight of its 31 blast furnaces and shut down 13 of its 35 steel mills. Production fell by 29.1% in April when compared to the previous month.

However, an unexpected “V-shaped” economic recovery caused the steel industry’s domestic sales to heat up. These sales, by June, had already surpassed the volumes registered before the pandemic, in February of 2020. This indicator maintained steady growth and more than recovered from the decline in April, registering an expansion of 3.5% in 2020 (19.5 million). During this period of economic recovery, the steel industry restarted blast furnaces and activities at steelworks that had been temporarily shut down during the first few months of the pandemic.

Since the COVID-19 outbreak began in Brazil, Brazilian steel production companies have placed a priority on supplying domestic markets to the detriment of exports. Exports therefore saw a decrease of 17.7%, down to 10.5 million tons. The 2.3% increase in apparent consumption in 2020 (up to 21.4 million tons) was therefore the result of a 3.5% expansion in domestic sales (reaching 19.5 million tons) due to imports dropping by 13.9% during the same period, down to 2.0 million tons.

The backdrop of different crises between 2018 and 2020 had a distinct impact on the various activities of the steel industry. Production dropped in both 2019 and 2020, returning to levels registered in 2016, a year of economic recession. Domestic sales grew in 2018 and 2020, reaching the highest level seen since 2014. Apparent consumption also reached the highest level seen since 2014. In international trade, exports dropped throughout the entire three-year period, reaching the lowest level seen since 2014. Imports decreased in 2019 and 2020, reaching the lowest levels seen since 2016.

The steel industry - 2005/2020



Source: Brazil Steel Institute/Ministry of Economy