

**DIRECTORATE FOR SCIENCE, TECHNOLOGY AND INDUSTRY
STEEL COMMITTEE**

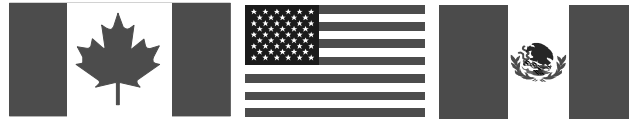
NAFTA SHORT RANGE OUTLOOK

17 May 2007

Presented by Barry Solarz, NAFTA Steel Committee meeting, 17 May 2007, Istanbul, Turkey.

Anthony de Carvalho, Administrator, Structural Policy Division
Tel: +(33-1) 45 24 93 77, Fax: +(33-1) 44 30 62 57; E-mail: anthony.decarvalho@oecd.org

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NAFTA Short Range Outlook

OECD Steel Committee
May 17-18, 2007

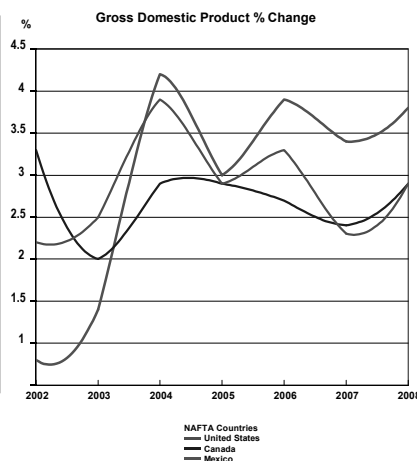
**All data current as of April 24, 2007*

I. Economic Conditions and Outlook in the Three NAFTA Countries



General Economic Situation

As the largest economy by far in the NAFTA region, the U.S. tends to drive the North American market. U.S. GDP growth was strong in 2006 at 3.3%, following a good 2004 and 2005. In 2007, U.S. economic growth is forecast to moderate to 2.3%, with a modest rebound to 2.9% in 2008. Canadian growth (2.7% in '06, 2.4% in '07 and 2.9% in '08) and Mexican growth (3.9% in '06, 3.4% in '07 and 3.8% in '08) are expected to follow a similar path.



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Economic Analysis & Trends

United States

Economic growth is forecast below trend in 2007. 1Q GDP growth is estimated at 2.1%, but will gradually improve to 3.0% by 4Q. For 2008, GDP growth is forecast to return near trend at 2.9%. Industrial production (IP) should increase 2.1% in 2007, down significantly from 3.9% growth in 2006. 1H 2007 IP will be sluggish, due to negative 4Q06 growth and inventory overhang. IP growth should improve throughout 2H07 as factory orders improve. For 2008, IP growth is forecast to average 2.9%. Residential housing will drag economic growth through most of 2007, where housing starts are forecast down 18% to 1.48 million. High inventories of unsold homes will depress housing starts through 1H07. Housing starts in 2008 are forecast to grow a modest 4% to 1.54 million. Car and light truck sales are projected down 1% to 16.4 million in 2007, with 2008 returning to the 2006 level of 16.5 million.

Canada

The economy is adjusting to a much stronger Canadian vs. U.S. Dollar. GDP moderated steadily throughout 2006, with 1% growth in 4Q06. In 2006, declining residential construction and worsening trade offset strong consumer (+4%) and investment (+8%) activity. Commodity exports were strong, but manufactured goods exports were soft. Rising employment and real disposable income, low interest rates and high consumer confidence, plus a very low unemployment rate, were major pluses. Following 2.7% GDP growth in 2006, Canada's economy is forecast to grow 2.4% in 2007 and 2.9% in 2008. Consumer spending and business investment are the engines of growth. Inflation should remain under control. Interest rates are therefore unlikely to move significantly. Consumer spending is forecast at 3+% through 2008. High capacity utilization and the need for productivity improvements support increased plant and equipment spending. Import growth should continue at a level above GDP growth, while export growth will remain a drag in 2007.

Mexico

2006 GDP growth was a solid 3.9%. Strong domestic demand, fixed investment and improvement in the labor market (mainly temporary jobs), were major factors. A stronger fiscal stance in government finance also boosted economic activity in 2006, with a budget surplus of 0.1% of GDP. Oil revenues were an important factor, since Mexico is the world's ninth largest oil exporter. Inflation was slightly higher than the goal, due mainly to the agriculture sector. Low inflation (forecast at 4-4.5% in 1H07) and interest rates contributed to accelerated consumer and capital spending. Industrial activity registered a 5.2% growth rate in 2006; manufacturing was +5.1% and construction was up 7.0%. The 2007 Mexican economy will slow to 3.4% GDP growth. However, growth could be higher if U.S. manufacturing activity rebounds better than expected, and if the new government decides to implement stimulative fiscal policies.



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Economic Indicators

ECONOMIC INDICATORS (% Change in Real Terms)	2002	2003	2004	2005	2006 (e)	2007 (f)	2008 (f)
Gross Domestic Product (Weight AVE)	1.7	2.4	3.8	3.2	3.3	2.4	3.0
United States	1.6	2.5	3.9	3.2	3.3	2.3	2.9
Canada	3.3	2.0	2.9	2.9	2.7	2.4	2.9
Mexico	0.8	1.4	4.2	3.0	3.9	3.4	3.8
Imports (Weight AVE)	3.0	4.3	10.6	6.3	6.1	3.3	4.5
United States	3.4	4.6	10.7	6.2	5.9	3.0	4.0
Canada	0.6	4.5	8.2	7.1	4.7	3.0	3.5
Mexico	1.5	0.7	11.6	6.9	9.6	7.2	11.4
Investment - Equip/Machinery (Weight AVE)	-6.9	0.7	4.3	8.9	6.8	4.8	5.9
United States	-7.7	0.3	3.4	8.9	6.8	4.6	5.8
Canada	-3.2	7.9	10.3	10.5	8.7	8.0	9.0
Mexico	-2.2	-2.4	8.0	7.7	4.8	3.7	4.0
Investment - Construction (Weight AVE)	-16.1	-3.6	4.6	2.1	8.8	7.6	0.9
United States	-17.1	-4.2	2.2	1.1	8.9	8.1	0.4
Canada	-10.4	5.5	7.4	7.9	7.5	4.0	3.0
Mexico	-10.8	-6.2	28.8	7.4	8.9	5.3	4.8
Exports (Weight AVE)	-1.8	1.1	9.1	6.5	8.2	8.0	9.0
United States	-2.3	1.3	9.2	6.9	8.7	8.6	9.3
Canada	-0.1	-2.4	5.2	2.1	1.4	2.4	3.5
Mexico	1.6	2.7	11.6	6.9	9.6	7.2	11.4
Unemployment % (Weight AVE)	5.7	5.9	5.5	5.1	4.7	4.8	4.9
United States	5.8	6.0	5.5	5.1	4.6	4.7	4.8
Canada	7.6	7.6	7.2	6.7	6.6	6.6	6.6
Mexico	2.7	3.2	3.7	4.0	3.8	3.8	3.8

Source: IISI Forecast for NAFTA Countries; IMF



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II. NAFTA Steel Market Conditions and Outlook



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2006 was stronger than 2005, but experienced a softening of market conditions in the 4th Quarter

<u>USA</u>			<u>Canada</u>			<u>Mexico</u>		
	Million Mt	% Change		Million Mt	% Change		Million Mt	% Change
Crude Steel	134.7	14.7	Crude Steel	19.3	7.2	Crude Steel	25.4	13.5
Finished	119.6	11.6	Finished	17.3	6.8	Finished	18.0	11.4
Exports	8.7	1.1	Exports	5.0	2.0	Exports	2.2	0.0
Imports	33.1	46.4	Imports	7.6	10.1	Imports	4.8	29.7

Survey of the Short Range Outlook Spring 2007 NAFTA Region



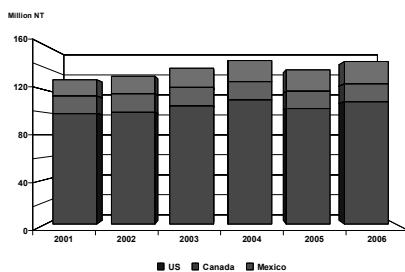
Apparent Steel Use (million metric tonnes)

	2003	2004	2005	2006	2007 (f)	2008 (f)
Crude Steel	146.4	169.4	157.8	179.4	173.8	179.9
Finished Steel	130.2	149.0	139.4	154.9	150.1	156.6



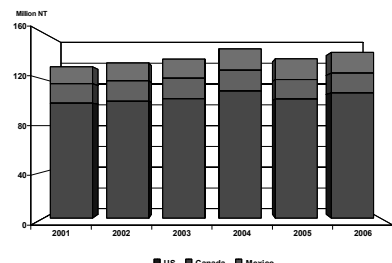
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NAFTA Steel Mill Product Shipments



Source: AISI, Statistics Canada, CANACERO

NAFTA Raw Steel Production



Source: AISI, Statistics Canada, CANACERO

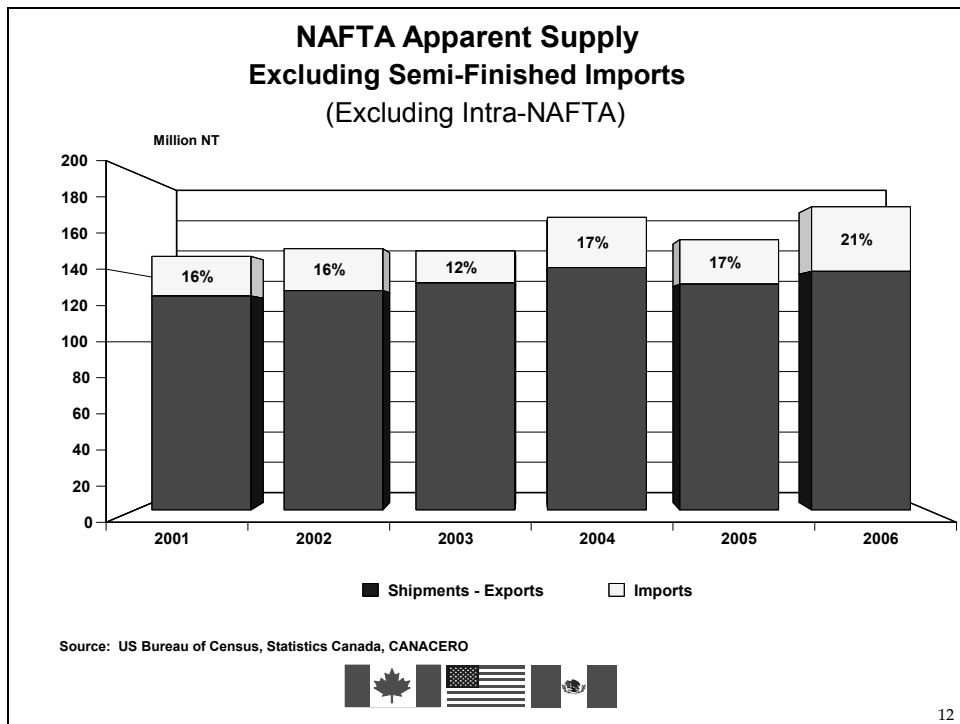
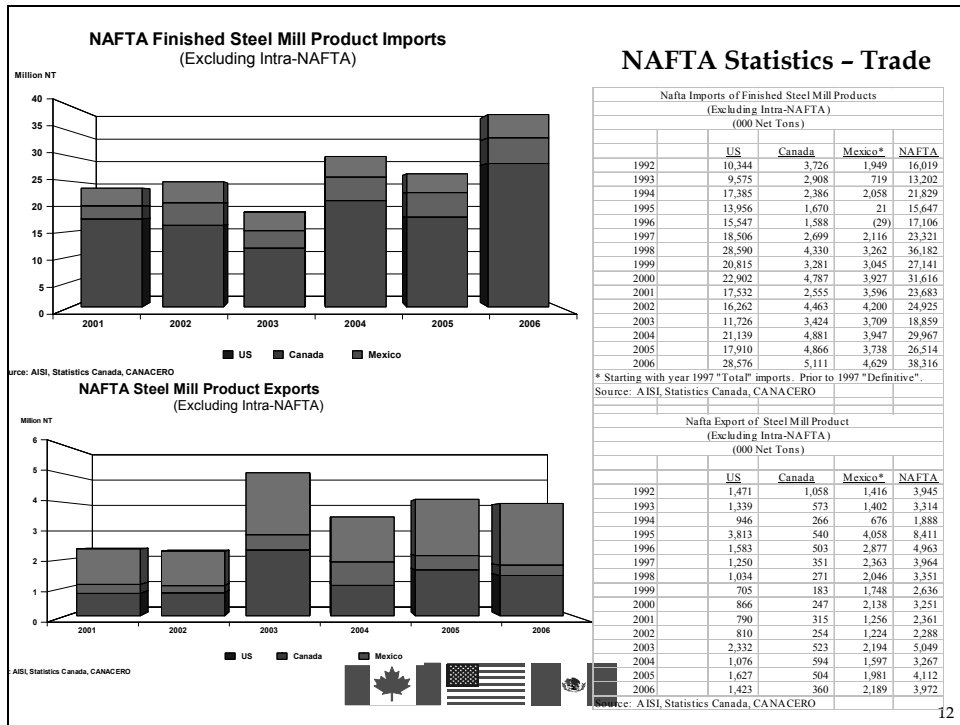


NAFTA Statistics - Domestic

	Nafsa Shipments of Steel Mill Products (000 Net Tons)			
	US	Canada	Mexico*	NAFTA
1992	82,241	13,459	7,922	103,622
1993	89,022	14,678	8,839	112,539
1994	95,084	14,781	10,255	120,120
1995	97,494	14,699	12,011	124,204
1996	100,878	15,576	13,622	130,076
1997	105,858	15,981	15,053	136,892
1998	102,420	15,496	15,018	132,934
1999	106,201	16,482	16,096	138,779
2000	109,624	16,446	16,910	142,980
2001	98,940	15,656	14,813	129,409
2002	100,000	16,605	15,947	132,552
2003	105,974	16,394	17,613	139,981
2004	112,085	16,289	18,813	147,187
2005	104,941	15,650	19,059	139,650
2006	109,502	16,169	20,072	145,743

Source: AISI, Statistics Canada, CANACERO

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NAFTA Apparent Supply 1992-2006 (cont)

NAFTA Apparent Supply of Steel Mill Products
Excluding Intra Nafta Imports and Exports
(000 Net Tons)

	Shipments	Imports		Apparent Supply Excl		Imports as % of AS
		Excl. Semi Finished	Exports	Semi Finished	Imports	
1992	103,622	16,019	3,945	115,696	13.8%	
1993	112,539	13,202	3,314	122,427	10.8%	
1994	120,120	21,829	1,888	140,061	15.6%	
1995	124,204	15,647	8,411	131,440	11.9%	
1996	130,076	17,106	4,963	142,219	12.0%	
1997	136,893	23,321	3,964	156,250	14.9%	
1998	132,935	36,182	3,351	165,766	21.8%	
1999	138,780	27,141	2,636	163,285	16.6%	
2000	142,980	31,616	3,251	171,345	18.5%	
2001	129,409	23,683	2,361	150,731	15.7%	
2002	132,552	24,925	2,288	155,189	16.1%	
2003	139,981	18,859	5,049	153,791	12.3%	
2004	147,187	29,967	3,267	173,887	17.2%	
2005	139,650	26,514	4,112	162,052	16.4%	
2006	145,743	38,316	3,972	180,087	21.3%	

Source: AISI, Statistics Canada, CANACERO



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Balance of Trade Steel Mill Products United States and Canada (000 Net Tons)

	Total			Semi-Finished			Finished		
	Exports	Imports	Balance of Trade	Exports	Imports	Balance of Trade	Exports	Imports	Balance of Trade
1995	2,464	4,567	(2,113)	212	404	(192)	2,242	3,096	(854)
1996	2,392	4,911	(2,519)	102	336	(234)	2,290	4,075	(2,285)
1997	3,693	4,775	(1,082)	119	346	(227)	3,564	4,429	(865)
1998	3,295	4,914	(1,619)	103	316	(213)	3,192	4,598	(1,406)
1999	3,562	5,039	(1,477)	86	386	(300)	3,506	4,683	(1,147)
2000	4,179	5,266	(1,087)	64	359	(295)	4,115	4,897	(782)
2001	3,765	4,660	(895)	77	199	(122)	3,688	4,461	(773)
2002	3,772	5,777	(2,005)	82	207	(125)	3,720	5,070	(1,850)
2003	4,313	5,320	(1,007)	39	297	(258)	4,274	5,023	(749)
2004	5,156	5,463	(307)	91	213	(122)	5,065	5,250	(185)
2005	5,857	5,899	(42)	82	569	(517)	5,805	5,330	475
2006	6,100	5,953	147	59	387	(328)	6,041	5,566	475

United States and Mexico (000 Net Tons)

	Total			Semi-Finished			Finished		
	Exports	Imports	Balance of Trade	Exports	Imports	Balance of Trade	Exports	Imports	Balance of Trade
1995	813	2,275	(1,462)	16	1,189	(1,173)	797	1,086	(289)
1996	1,066	2,905	(1,849)	24	1,393	(1,369)	1,032	1,512	(480)
1997	1,103	3,312	(2,209)	40	1,448	(1,408)	1,063	1,864	(801)
1998	1,191	3,167	(1,976)	91	1,611	(1,520)	1,100	1,556	(456)
1999	1,159	3,518	(2,359)	22	1,834	(1,812)	1,137	1,684	(547)
2000	1,484	3,267	(1,773)	22	1,656	(1,634)	1,462	1,801	(139)
2001	1,589	2,991	(1,402)	21	1,344	(1,323)	1,568	1,847	(279)
2002	1,427	3,757	(2,330)	22	1,925	(1,903)	1,405	1,832	(427)
2003	1,575	3,218	(1,643)	87	1,658	(1,571)	1,488	1,860	(372)
2004	1,791	4,277	(2,486)	134	2,277	(2,143)	1,667	2,000	(333)
2005	1,910	4,114	(2,204)	161	2,162	(2,001)	1,749	1,952	(203)
2006	2,204	3,641	(1,437)	93	1,828	(1,735)	2,111	1,813	298

Source: U.S. Dept. of Commerce, Bureau of Census

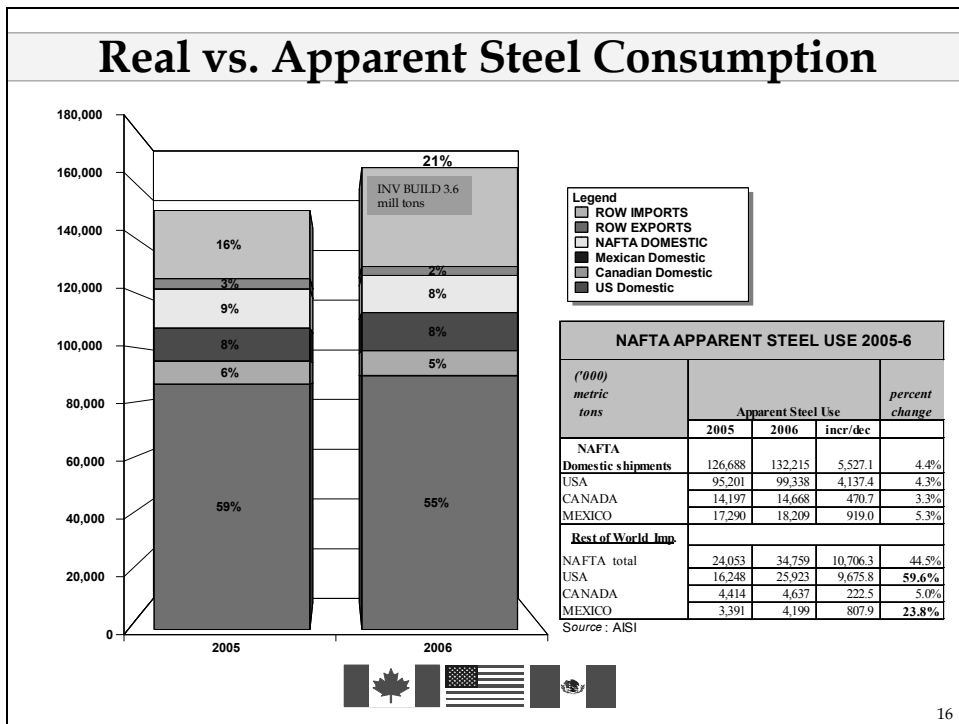
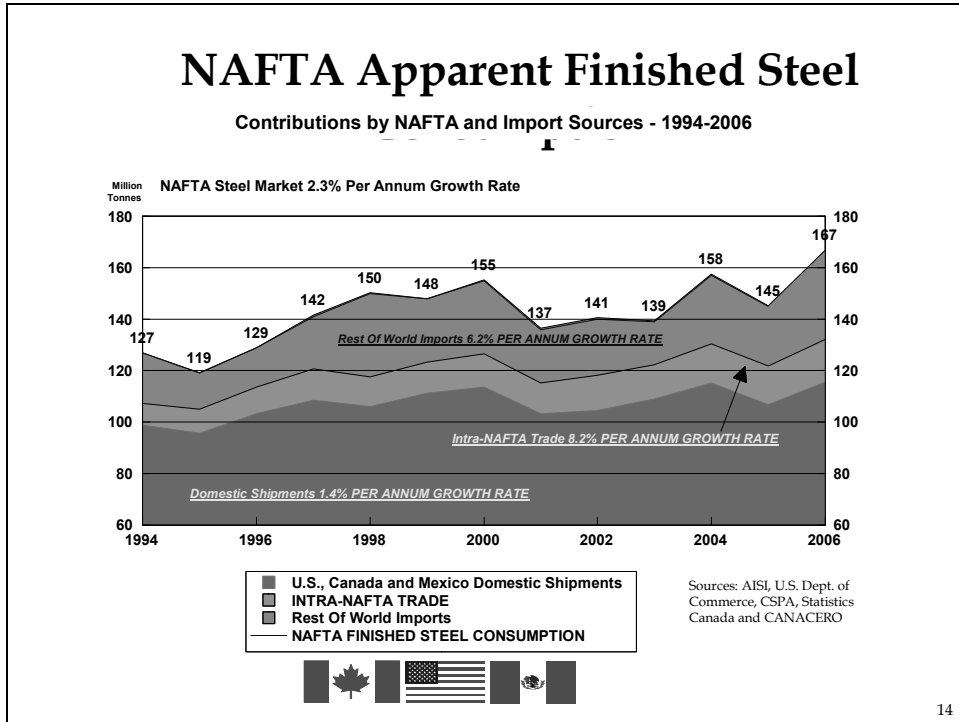
Canada and Mexico (Net Tons)

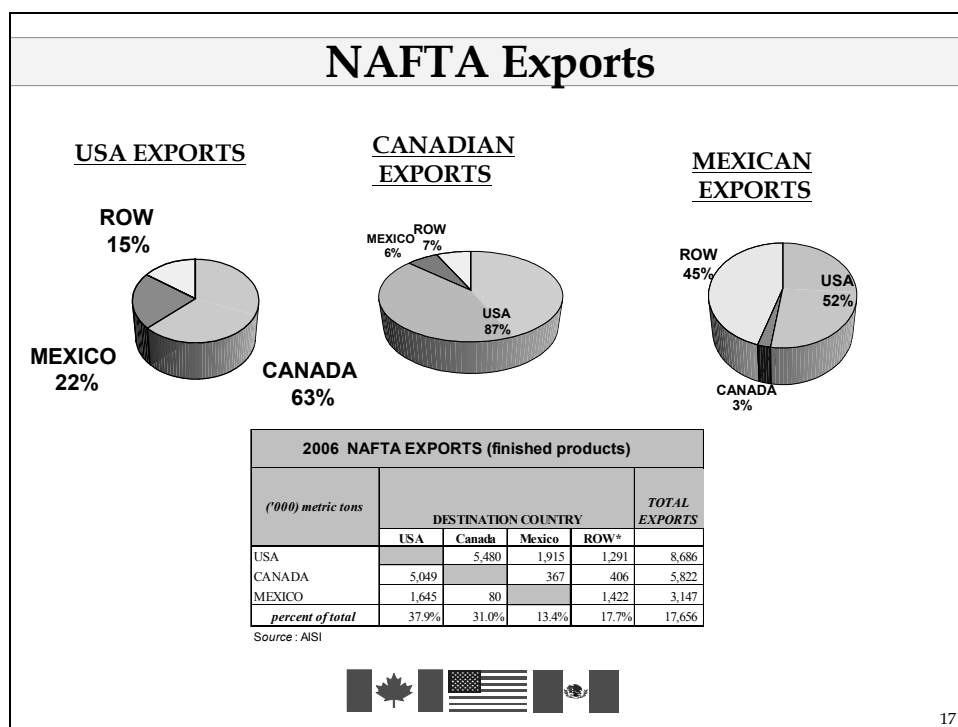
	Total			Semi-Finished			Rolled Steel Products		
	Exports	Imports	Balance of Trade	Exports	Imports	Balance of Trade	Exports	Imports	Balance of Trade
1995	29,943	163,034	(133,091)	-	49,650	(49,650)	29,943	122,484	(92,541)
1996	13,767	69,176	(55,409)	-	45	(45)	13,767	69,131	(55,364)
1997	151,864	356,458	(204,594)	9,899	243,555	(233,656)	141,965	111,903	30,062
1998	26,091	212,282	(186,191)	-	177,505	(177,505)	26,091	24,777	1,314
1999	19,000	292,000	(183,000)	-	80,000	(80,000)	19,000	122,000	(103,000)
2000	34,000	229,000	(195,000)	-	102,000	(102,000)	34,000	127,000	(93,000)
2001	96,000	111,000	(15,000)	-	29,000	(29,000)	96,000	86,000	10,000
2002	135,000	154,000	(19,000)	-	47,000	(47,000)	135,000	107,000	28,000
2003	204,000	132,000	72,000	66,000	24,223	41,777	138,000	107,777	30,223
2004	132,000	200,000	(68,000)	12,000	24,000	(12,000)	120,000	176,000	(56,000)
2005	171,000	158,000	13,000	-	22,000	(22,000)	171,000	136,000	35,000
2006	403,648	89,355	314,293	-	1,485	(1,485)	403,648	87,870	315,778

Source: Statistics Canada, Canadian Steel Producers Association

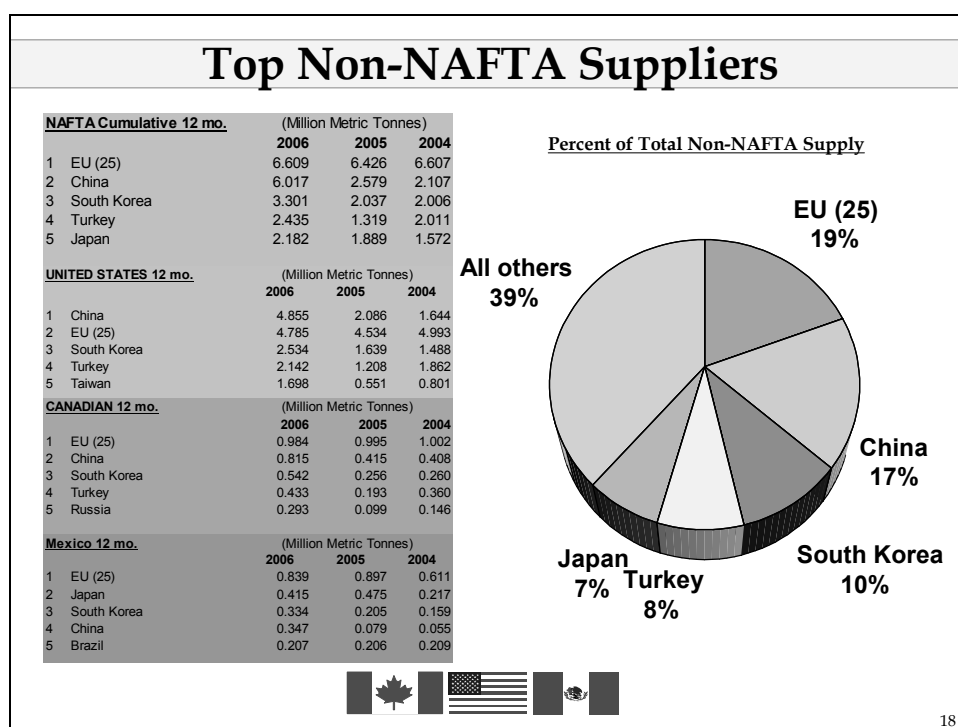


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