Cefic Economic Outlook Press Release (July-2018)

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1. At the Heart of European Industry
1-1 At the **Heart of European Industry**-1

Providing the essentials

- 96% of European chemical companies are **SMEs**
- Network of **more** than 5,000 chemical industry **experts**
- € 507 billion in **sales** in 2016
- EU chemical **trade surplus** of € 48,1 billion in 2017
- The third largest investor in EU manufacturing (€21,7 bn)
1-2. Asia chemicals production outpaces other regions

With 15.1%, the EU chemical industry ranks second, along with the USA (14.2%), in total sales. When including both the European Union and non-EU countries in Europe, total sales reached €597 billion in 2016, or 17.8% of world chemical sales.

Worldwide competition has ratcheted up in the last ten years, however, as China holds the top ranking in sales – a position once firmly held by Europe.
1-3. China dominates world chemicals investment

In 2016, China invested €99.2 bn in the chemical business, **accounting for 46% of World chemical investment**. This is far above the 25% reported ten years ago.

The EU chemical industry subsectors with the **highest capital spending values** are petrochemicals, inorganic basic chemicals, plastics in primary forms, fertilisers and nitrogen compounds. (Source: EU Commission CCA report, 11 July 2016)
Advantageous energy and feedstock prices are a clear enabler of competitiveness. A clear indicator of this situation is the cost of producing ethylene.

Although the competitive disadvantage has diminished recently, **Europe still has a significant competitive disadvantage compared to US and ME.**
1-5. EU sales increase by more than 50% in 20 years, while EU world market share halves

Sales (up, 52%), market share (down, 54%)

- Sales (22 times), market share (7 times)

- This is a “dilution” effect, a trend expected to continue in the future. Data analysis showed strong chemical demand growth in China, and other emerging countries and low growth in Europe and North America, where Europe sells most of its chemicals.

- Overall growth of chemicals demand and production as well as faster growth in emerging regions is a trend that is likely to continue in the coming years. Growth in post-recession Europe remains low, mainly due to mature markets and an ageing population.
1-6. EU market share of capital and R&D spending declined significantly during 20 years.

- Capital spending intensity reached the highest level in eight years.
- EU investment market share has lost more than 2/3 of its value during 20 year period.
- EU R&D spending market share has lost 25% of its value during 20-year period.

Source: Cefic Chemdata International 2016
Summary: EU Chemicals Competitiveness

- The chemicals business in Europe is at the heart of European Industry providing the essentials
- Chemicals is the third **largest investor** in the EU manufacturing
- Asia chemicals production **outpaces** other regions
- EU sales increase by more than 50% in 20 years, while EU world **market share halves**
- Capital spending intensity reached the **highest level in eight years**
- China **dominates** world chemicals investment
- The US was by far the **EU’s biggest trading partner** in chemicals (nearly 22%)
- **Feedstock and energy prices** are the European industry’s Achilles’ heel
- **Regulatory costs** are shaping profitability of the EU chemicals sector
2. Chemical Industry in Europe – Latest Trends
2-1. The **Euro area economic climate cooled down after reaching its highest level in Q1-2018**

- The economic climate deteriorated in all key countries in the euro area. **The only exception was Spain. In Italy, the climate clouded over heavily.** Survey participants in Germany and France are also more pessimistic about the future, but their assessments of the current economic situation remain firmly positive.

- The **economic upturn will slow down.** Experts expect growth of 2.2% for the euro area for this year, versus 2.4% growth in 2017.
2-2. The chemicals business climate has worsened slightly, but remained satisfactory.

- The chemical business situation at present became less favourable.
- Prospects for the coming months remained relatively unchanged.
- The business climate worsening slightly, but remained satisfactory,
- Last but not least, chemicals confidence is still above the long-term average.

*Chemicals excluding pharmaceuticals (Nace 20)
Production in the EU chemicals sector grew 1.9% in Q1-2018 (y-o-y), with output rising in some chemicals sub-sectors.

Production index (2015=100) for the EU chemicals sector dropped from Q4-2017 to Q1-2018 (-1.4%), returning to more or less the same level as in Q3-2017.
2-4. EU Chemicals* **Output down, returning** to the same level as in Q3-2017

**Q1-2018 Vs Q4-2017**: Chemicals output drops in major EU countries. Production in Italy and UK went down by less than 1%, the EU28 (-1.4%), Germany and France reported a decline of more than 2% (losing momentum)

**Q1-2018 Vs Q1-2017**: EU output grew by about 2% (y-o-y), the major countries performed better than the EU28 are, Spain, the Netherlands, Germany (more than 2.5%). Italy is close to the EU level. No significant growth in UK and output declined by about 1% in France
2-5. Capacity utilisation, down to the same level as in Q4-2016

- Capacity utilization has reached its second highest level in Q4-2017
- **Q1-2018**: Capacity utilisation reached the value of 82.9% in Q1-2018, down from 84.1% in Q4-2017 (-1.4%). This is in line with latest output development,
- Chemicals capacity is 2.3% above the long-term average (1995-2017).
3. Macro Economic Outlook
3-1. **Growth still solid** – but perspectives become cloudier

Source: Cefic EOTF Meeting, (Milano, June 2018)
3-2. **Global chances and risks**: clear deterioration since Feb. 2018

**USA**
- **Protectionism**
  - Tax reform
- **Political uncertainty**
- Increasing inflation and interest rates
- Increasing public debt

**Europe**
- **European Union**
  - Low inflation and increasing incomes
  - New government in Italy
  - Strong Euro
- **Brexit-related uncertainty**

**Middle East**
- Escalation of Syria conflict
- Snapback of Iran sanctions

**Russia**
- Stabilization of oil price
- Continuation of old and newly imposed sanctions

**China**
- Consolidation course of central government
- Stronger regulation of financial sector
- Less growth stimuli from the government
- High debt of corporates
- Real estate price bubble
- Trade conflict with US

**South America**
- Stable/increasing commodity prices
- Dependency on China
- Decreasing inflation
- Elections in Brazil

Source: Cefic EOTF Meeting, (Milano, June 2018)
3-3. **Stable GDP growth** in Asia Pacific

![GDP growth chart](chart)

Source: Cefic EOTF Meeting, (Milano, June 2018)
3-4. Escalating trade conflict between the USA and China

1. March 8: USA introduces tariffs on Aluminum (10%) and Steel (25%) for all trade partners (except NAFTA, EU (prelim.), South Korea etc.)

2. April: China introduces tariffs of up to 25% on US imports (128 products/USD 3 bn (e.g., wine, pork, piping material))

3. April: USA announce tariffs on products from China valued USD 50 bn (e.g., pharmaceutical ingredients, electronics, aircraft parts, batteries)

4. April: China retaliates by announcing tariffs on US imports of USD 50 bn (e.g., soybean, chemicals, cars)

5. April: USA considers additional tariffs on Chinese imports of USD 100 bn.

Source: Cefic EOTF Meeting, (Milano, June 2018)
3-5. China: stable GDP and Industry growth, weak growth in Chemicals

- **GDP growth Q1 2018 YoY**
  - + 6.8% (2017: +6.9 %)

- **Industry growth Jan-Apr 2018 YoY**
  - Industry: + 6.9%
    (2017: +6.1%)
  - Manufacturing: + 7.1%
    (2017: +7.0%)
  - Chemicals: + 3.7%
    (2017: +4.0%)

Source: Cefic EOTF Meeting, (Milano, June 2018)
3-6. Strong EU industry development, but recent dynamics disappointing (y-o-y)

Source: Cefic EOTF Meeting, (Milano, June 2018)
4. EU Chemicals Outlook

Production of motor vehicles, EU28
Index 2015=100, change against prev. year in %

Source: Cefic EOTF Meeting, (Milano, June 2018)
4-2. **EU Mechanical Engineering: Outlook**

**Production of machines, EU28**
Index 2015=100, change against prev. year in %

Source: Cefic EOTF Meeting, (Milano, June 2018)
4-3. EU construction: Outlook (2018, 2019)

Production of construction industry, EU28
Index 2015=100, change against prev. year in %

Source: Cefic EOTF Meeting, (Milano, June 2018)
Following years of stagnation since the economic crisis, output growth was less than 1% on average during the past five years, which shows that the chemical sector in Europe will have to find new ways to deliver strong growth for the long-term. Energy and feedstock costs are playing a key role on chemicals competitiveness in Europe.

Looking ahead, Cefic expects chemical production to grow by 1.5% in the current year.

Production is expected to follow moderate growth next year 1.5 %