

Chemical Quarterly Report (CQR)

Quarterly Summary; 10th September 2020



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EU chemical output shows signs of fragile recovery, but remains 9% below the pre-crisis level

- *Chemical output in the EU27 dropped by 5.2% from January-June 2020 compared to the previous year's level (January-June 2019), following the COVID-19 outbreak in Europe, but some first signs of recovery can be seen.*
- *The spill-over effect of the crisis will continue for a while, but the weakest economic point of 2020 seems to have been reached in April. The chemical output data from June reported 2.9% output growth compared to May of the same year, however, this is still about 9% below the pre-crisis level (June compared to Feb of 2020).*
- *Small and medium-sized enterprises operating in the chemicals business are still facing liquidity issues following the COVID-19 outbreak: Many of the SMEs are family owned mid-size companies, which typically do not have a large backstop. They will continue to face delayed payments in the near future from customers, but it is too early to capture a complete measure of these effects.*

Marco Mensink, Cefic Director General: *“While like other manufacturing sectors, the EU chemical industry has been severely hit by the current economic downturn during the COVID-19 outbreak, we are now encouraged to see some first, although very modest, signs of recovery in the European chemical output.*

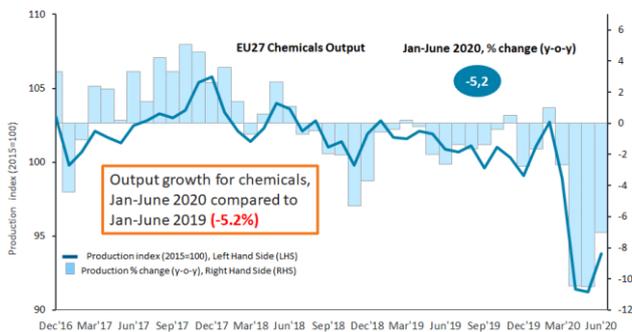
At the same time, it is clear that the impact of the crisis varies between the sectors of the chemical industry and the overall decline in cross-sectoral manufacturing activity, including automotive and refining, is likely to affect the pace of some investments. This makes the need for a coherent policy framework to support European investments into these technologies all the more critical and timely.

At Cefic, we are calling for a ‘sectoral Green Deal’ to drive greater policy coherence. With the right policy framework, the EU Recovery Package could be an opportunity to prioritise investments into innovative Green Deal solutions, such as e-crackers, chemical recycling, hydrogen, CCS and CCU infrastructure and other new technologies our sector is innovating and developing.”

Report

Key messages: Chemical output in the EU27 dropped by 5.2% from January-June 2020 compared to the previous year's level (January-June 2019), following the COVID-19 outbreak in Europe. Output data shows small signs of recovery: June data reported 2.9% output growth compared to May of the same year, but still about 9% below the pre-crisis level (June compared to Feb of 2020). Output continued to recover gradually, and the bottom of 2020 seems to be reached in April; it is hopefully behind us, but the spill-over effect of the crisis will continue to appear for a while. Global chemical output declined by 3.4% in 1H-2020 compared to the same period of 2019. China is still an exception; output has already experienced the V-shape and production level in July was the highest one since ever.

Chart: Output growth for EU27 chemical sector



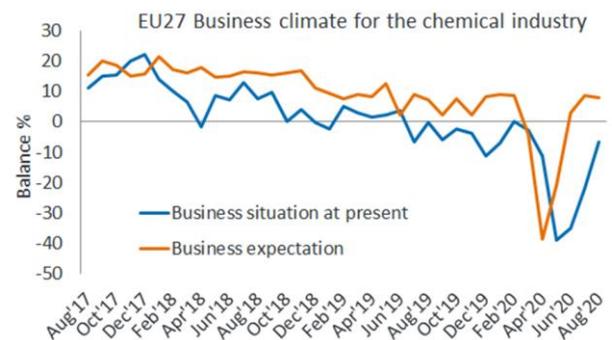
Source: Eurostat and Cefic Analysis, Sep 2020

The EU27 chemical business climate continued its road to recovery since June

Following the historical slump in March and April, the recovery of the Chemicals Confidence Indicator (CCI) continued in August 2020 for the fourth consecutive month. Chemicals business situation at present and chemical production expectations for the months ahead, registered positive developments since June. There are signs of modest recovery during the third quarter of 2020. Nonetheless, all indicators remain below

their long-term averages and their February readings. While overall EU27 production has declined, during the first half of 2020, some sectors of the chemical industry (providing for essential supply chains during the COVID-19 outbreak) have posted a growth during the same period. As an example, soaps and detergents reported an output growth of 2.9% in 1H-2020 compared to 1H-2019. Finally, it is still early to establish the exact impact of the pandemic on the chemical output for the year 2020, and the forecast for 2020-2021 will depend on the ongoing length and severity of the COVID-19 crisis.

Chart: Business Climate for the EU27 Chemical sector



Source: Eurostat and Cefic Analysis, Sep 2020

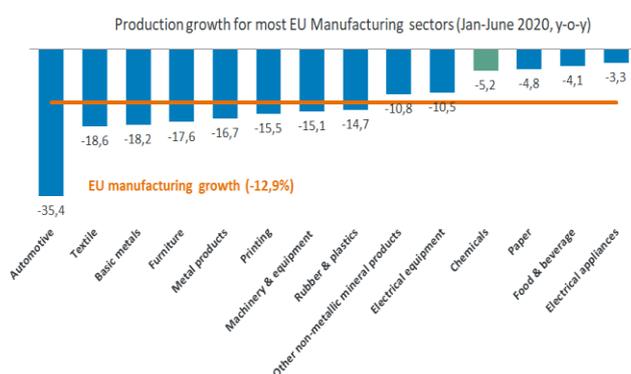
EU27 manufacturing output: 12.9% below the previous year's level (Jan-June 2019)

EU27 manufacturing output was down 12.9% during the first half of 2020, compared to the same period of 2019. Generally speaking, no sign of further deterioration was observed in the EU27 manufacturing sector since April 2020.

Sectoral data shows that among the largest EU27 manufacturing sectors, automotive is most impacted by the crisis compared to the other European sectors: Production of automotive lost more than one third of its original level of 1H-2019 (-35.4%), followed by textile and basic metals with a drop of about 18%. Chemicals and paper

sectors registered a decrease of about 5% during the same period. Finally, food and beverage and electrical appliances are least impacted by the crisis compared to the other sectors with a drop of 3-4%.

Chart: Output growth for EU key manufacturing sectors



Source: Eurostat and Cefic Analysis, Sep 2020

EU27 chemical production: 5.2% below the previous year's level (Jan-June 2019)

Output was 5.2% below the previous year's level (Jan-June-2020 versus Jan-June-2019). Country data shows that among the largest European countries, France and Italy are most impacted by the crisis compared to the other European countries: their productions were at least 12% below the previous year's level, followed by Spain and Portugal with a drop of more than 6.5%.

Belgium and the Netherlands registered a decrease of about 6% during the same period. Germany reported a drop of 3.6%, followed by Poland where output declined by 1.7% in 1H-2020 compared to 1H-2019. The UK reported a drop of 6.2%.

EU27 producer prices were 4.8% below 1H-2019's level. Total sales (domestic and exports) in the EU27 chemical business posted a value of €202.2 billion for the first five months of 2020, 7.9% below the previous year's level (1H-2019). The weak domestic demand in Europe and the deterioration of trade business environment are impacting negatively total sales. Capacity

utilisation is still about 9% below the previous year's level.

Table: EU chemicals output growth by country

Chemicals	Production growth		Production index (2015=100)		Production growth
	2018	2019	1H-2019	1H-2020	Jan-June (20/19)
EU Countries					
France	-1,3	0,0	108,0	92,8	-14,1
Hungary*	5,9	-4,6	99,8	87,7	-12,1
Italy	0,4	0,4	107,0	94,1	-12,0
Czech Republic	0,7	-2,7	110,3	97,2	-11,9
Portugal	-14,5	3,9	92,2	86,1	-6,6
Spain	0,8	0,0	107,6	100,6	-6,5
UK*	2,3	-2,9	99,5	93,3	-6,2
Belgium	0,7	-3,1	104,3	98,1	-5,9
Netherlands	0,4	-3,4	106,5	100,2	-5,9
EU27	-0,5	-1,1	101,8	96,5	-5,2
Germany	-2,2	-3,1	97,5	94,1	-3,6
Poland	3,1	4,7	116,4	114,4	-1,7
Bulgaria	-5,4	2,6	118,9	117,0	-1,6
Greece	7,4	7,1	122,5	122,3	-0,1
Romania	2,2	-2,3	110,0	110,5	0,5
Austria*	0,7	2,8	104,9	107,1	2,1
Lithuania	14,7	1,7	125,1	128,3	2,5
Latvia	10,3	-1,7	126,2	137,0	8,5
Estonia	10,9	-5,9	107,3	118,4	10,3
Denmark	2,5	4,3	117,8	132,9	12,8

Source: Eurostat and Cefic Analysis, Sep 2020, *June data not available

Global chemical production: 3.4% below the previous year's level (Jan-June 2019)

Global chemical output declined by 3.4% in 1H-2020 compared to the same period of 2019. Output in China was 2.1% below the previous year's level (Jan-June 2019). The weak trend of key customer sectors globally slowed the growth of chemicals in all countries. India (-14.1%) and Japan (-9.2%) were most affected than the others.

USA and the EU27 reported similar negative changes of about 5% during the same period. Apart from China, production levels in all producing countries still below their long-term averages and below the pre-crisis levels.

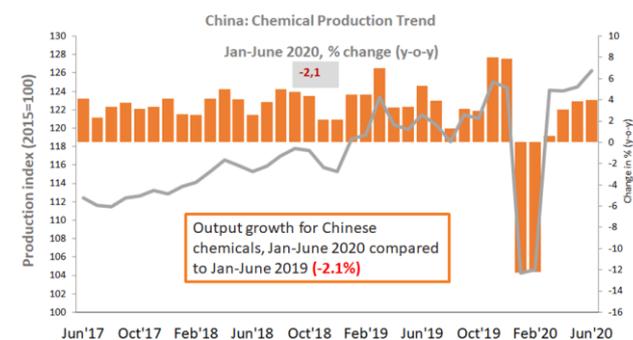
Table: Output growth for key chemical producing countries

Chemical output by country	Production growth		Production index (2015=100)			Production growth	
	2018	2019	1H-2019	2H-2019	1H-2020	1H-20/2H-19	1H (20/19)
China	3,6	4,6	120,5	121,8	118,0	-3,1	-2,1
India	2,3	1,2	107,0	107,1	91,2	-14,8	-14,7
Japan	1,4	-0,6	108,6	106,5	98,7	-7,4	-9,2
South Korea	2,3	-2,5	107,9	109,8	104,0	-5,3	-3,6
UK	2,3	-2,9	99,5	92,3	93,3	1,1	-6,2
EU27	-0,5	-1,1	101,8	100,3	96,5	-3,8	-5,2
USA	4,1	-0,1	108,4	107,6	103,2	-4,1	-4,8
Latin America	-0,8	-1,2	96,4	95,9	91,8	-4,3	-4,8
World	2,8	2,1	112,9	112,2	109,1	-2,8	-3,4

Source: Cefic Chemdata International, Sep 2020

China is still an exception; output has already experienced the V-shape and production level in July was the highest one since ever.

Chart: Chemicals Output growth in China



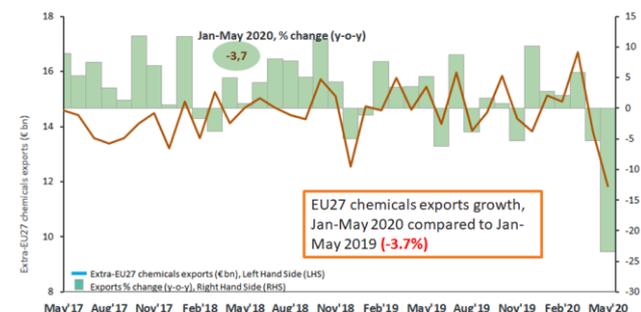
Source: Cefic Chemdata International

Source: Cefic Chemdata International, Sep 2020

EU27 Exports: €2.7 billion below the previous year's level (Jan-May 2019, -3.7%)

EU27 chemical exports outside the EU27 area reached the value of €72.4 billion in the first five months of 2020, down from €75.2 billion during the same period of 2019 (-3.7%). EU27 chemical exports to the USA rose in petrochemicals by €2.3 billion (+8.8%). However, the analysis shows a significant decrease of EU27 exports to the USA in specialty chemicals and consumer chemicals during the same period. EU27 chemical exports to China amounted to €6.3 billion, slightly up from 2019's level (+1.2%). All in all, data on April and May showed two consecutive declines in extra-EU27 chemical exports. No clear sign of recovery is observed on the exports side.

Chart: Extra-EU27 chemical exports

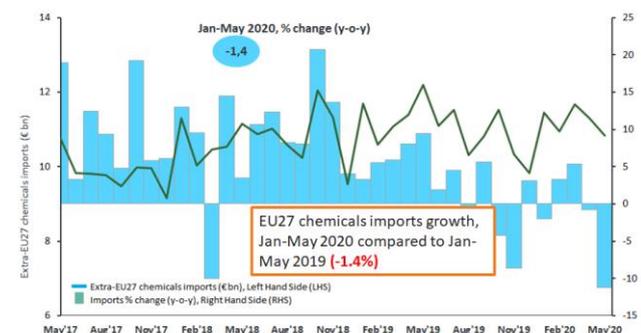


Source: Eurostat and Cefic Analysis, Sep 2020

EU27 Imports: €0.8 billion below the previous year's level (Jan-May 2019, -1.4%)

EU27 chemical imports outside the EU27 area reached the value of €56.2 billion in the first five months of 2020, down from €57.0 billion during the same period of the previous year (-1.4%). Polymers (€2.1 billion) and consumers (€0.4 billion) contributed most to the decrease in total imports. However, the analysis shows a significant increase of EU27 imports in specialty chemicals and petrochemicals during the same period. EU27 chemical imports from China amounted to €6.5 billion, slightly up from the 2019 level (+0.6%).

Chart: Extra-EU27 chemical imports



Source: Eurostat and Cefic Analysis, Sep 2020