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The road to recovery requires a bold business plan

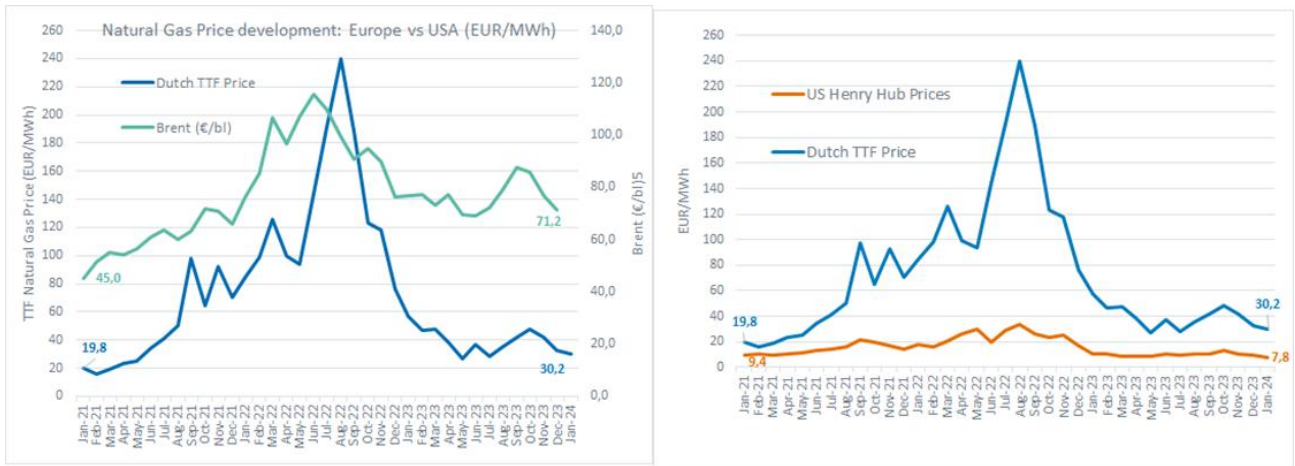
✓ Summary

- Europe has been more impacted by the energy crisis than other regions, structural issues need to be addressed. The EU27 chemical industry has been gradually losing its competitive edge in the global market. As energy-intensive industry, high energy costs are the Achilles heel of our industry, especially when compared to the United States and Middle East who have the advantage of lower energy costs. But energy costs are not the only contributing factor. Stalling investments in Europe could also be attributed to regulatory uncertainty, unclarity about de-risking schemes for innovations, and overall lack of confidence and predictability in Europe's industrial policy, making it cumbersome to do business in the European Union. To ensure Europe becomes an interesting place for investment, we need a business case, as called for in Antwerp Declaration for a European Industrial Deal
- Confidence in the chemical sector has been seeing an upward trend, the trade balance is recovering as destocking seems to be coming to an end. The level of inflation is expected to fall from 5.4% in 2023 to 2.3% in 2024 (source: European Central Bank, macroeconomic projections, March 2024). Even though these are positive signs, it is too early to say if this trend is the beginning of an upcycle.

✓ European gas prices in January 2024: 64% below 2022 levels

The chemical industry is energy intensive and therefore highly affected by gas prices. The current gas prices are at least 50% above the pre-crisis level (2021). In January 2024, the gas price was 64% below 2022 levels (30.2 vs 84.7, EUR/MWh), and 47% below 2023 levels (30.2 vs 54.7, EUR/MWh). Yet compared to the USA, the gas price in Europe remains 3.9 times higher (January 2024, 30.2 vs 7.8 EUR/MWh). This leaves Europe at a competitive disadvantage with the USA (among others).

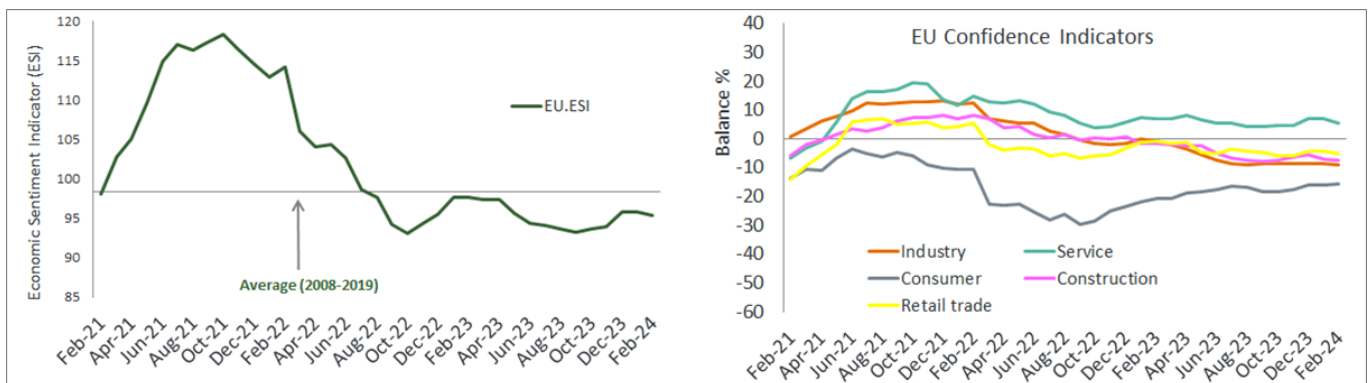
¹ Unless specified, chemical industry excludes pharmaceuticals.



Source: EU27 commission business and consumer survey and Cefic analysis (2024)

✓ **EU27 economic sentiment slightly down in Feb-2024**

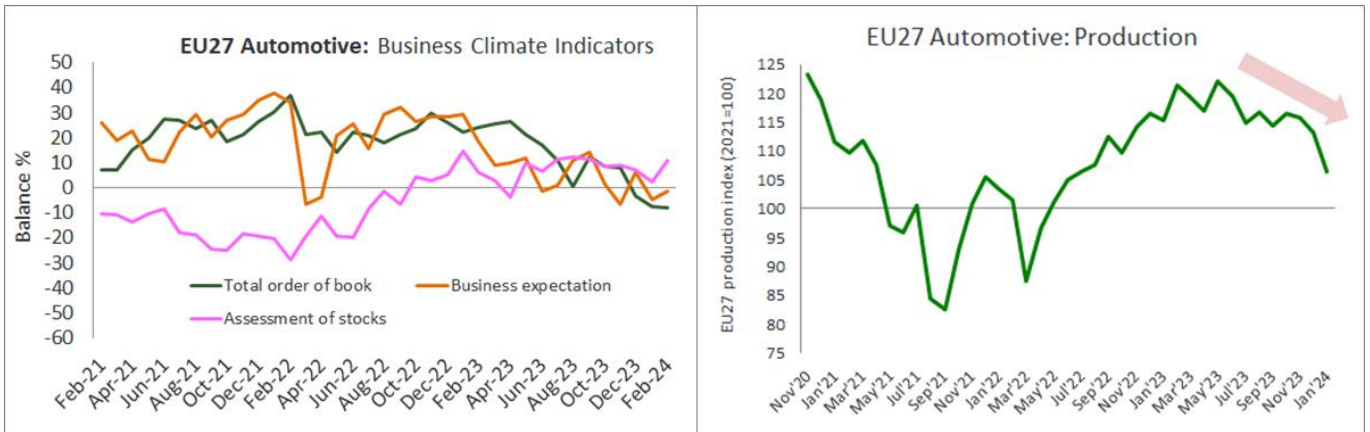
In February 2024, the Economic Sentiment Indicator (ESI) decreased slightly in both the EU and the euro area. The ESI deteriorated markedly in Italy and slightly in Germany and Poland, while it improved strongly in the Netherlands and remained broadly stable in France and Spain. The mild decline of the ESI was due to lower confidence among services, retail trade and construction managers, while confidence remained broadly stable in industry and increased slightly among consumers (source: EU27 business and consumer survey, February 2023).



Source: EU27 commission business and consumer survey and Cefic analysis (2024)

✓ **After a positive growth, EU27 automotive output continued to decline since Oct-2023**

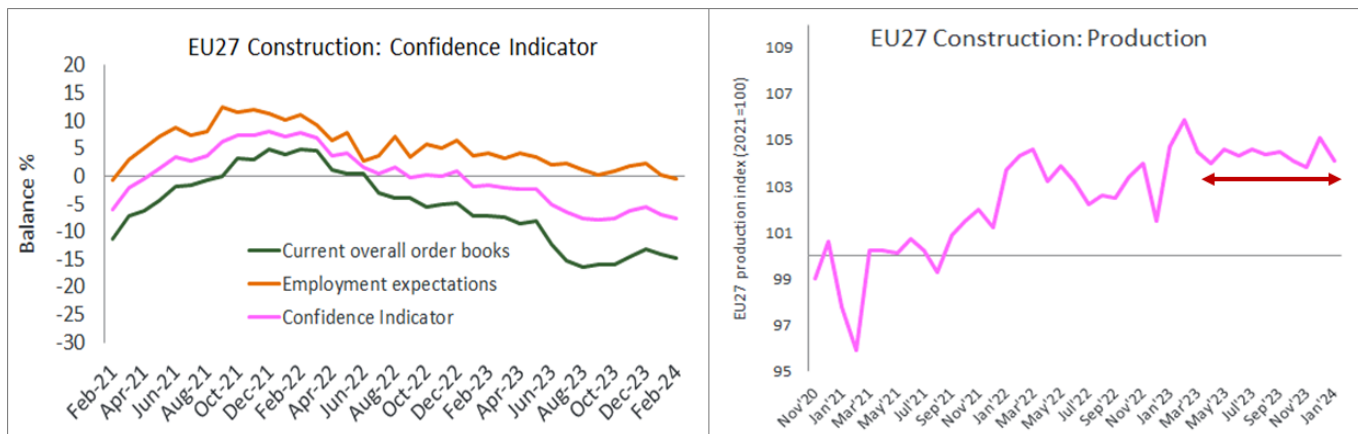
Data analysis from Eurostat shows two consecutive years of positive growth for EU27 automotive output: +5.1% in 2022 and +11.3% in 2023. However, a downward trend has been observed since October 2023. The current output level of January 2024 is still 13% below the peak level of May 2023. It is also close to the same level as in July 2022. This trend is in line with Oxford Analysis on the selling rate (in million units/year). According to the latest Oxford Economics Monthly Report, the Western European selling rate fell to 13.6 million units/year in January, down from 14.8 million in December.



Source: EU27 commission business and consumer survey, Eurostat and Cefic analysis (2024)

✓ **EU27 construction output has stabilised**

The construction sector remains one of the most important drivers of growth for the chemical industry, as is automotive. The graph below clearly shows construction output did not gain momentum since May 2023. It has stabilised at a high level for more than 7 months. The major force holding back further growth remains the weak demand which persists according to the EU27 Commission survey. The year 2023 remains very weak with a growth rate of 0.2% compared to 2022.



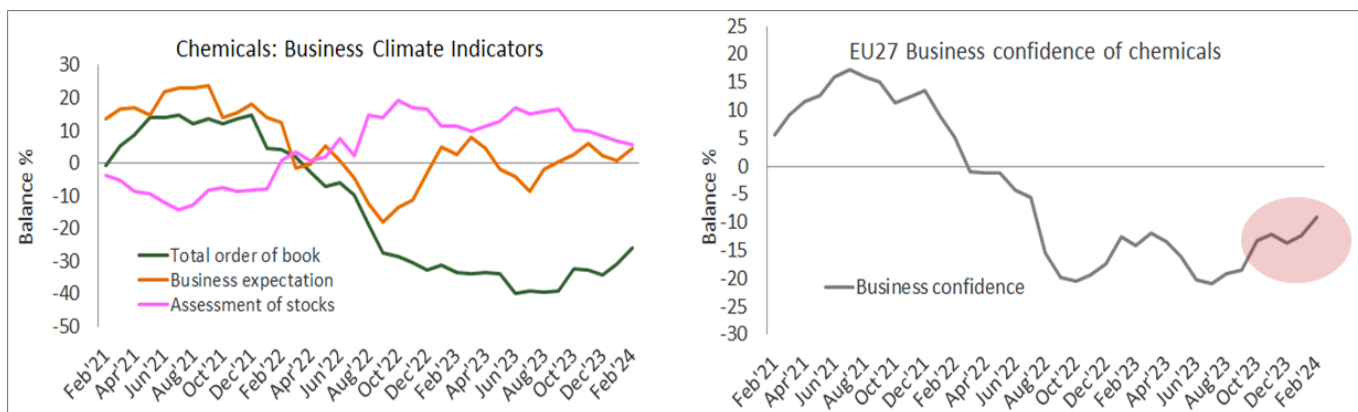
Source: EU27 commission business and consumer survey, Eurostat and Cefic analysis (2024)

Construction confidence worsened somewhat as both builders' employment expectations and their assessment of the level of order books deteriorated. The percentage of construction managers indicating insufficient demand as a factor limiting construction activity increased further, while the percentage indicating labour shortages decreased. The share of construction managers pointing to material/equipment shortages or financial constraints as limiting factors remained broadly stable (source: EU27 business and consumer survey, February 2023).

✓ **EU27 chemicals confidence continued to improve**

The latest EU economic survey shows a slight increase in confidence in the EU27 chemical industry. In February 2024, chemicals production expectations went up for the first time since November 2023. It is certainly weak compared to the pre-crisis level but it remains in the positive digits. The assessments of the stocks of finished products decreased for the fifth consecutive month in row. The managers' opinion on the current level of overall order books continued to move into the right

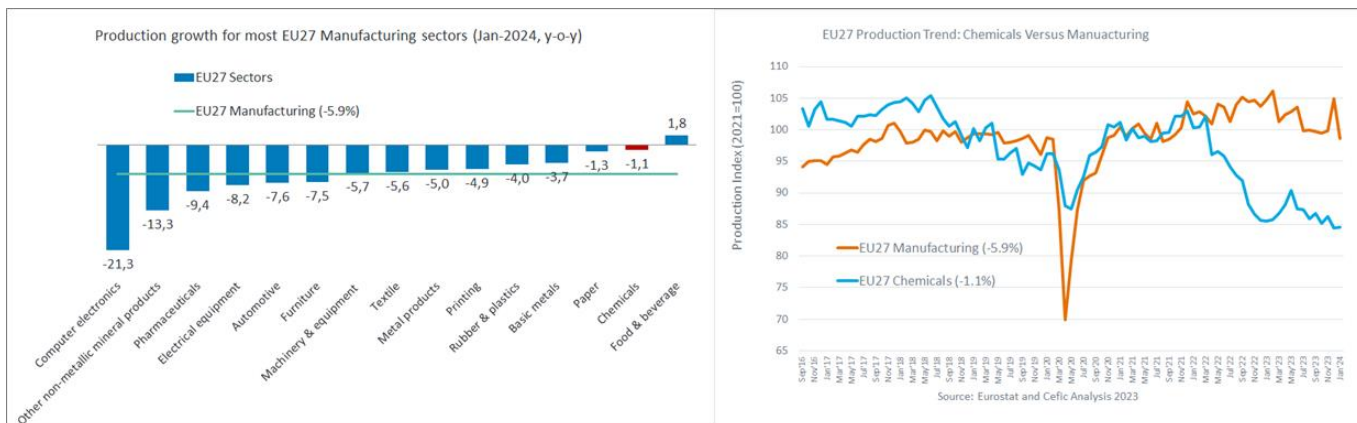
direction, and showed a gradual improvement vs the mid-2023 low. The chemicals confidence indicator improved further in February 2023, yet is still at a low level.



Source: EU27 commission business and consumer survey and Cefic analysis (2024)

✓ **European industrial sectors are still a long way from dynamic growth**

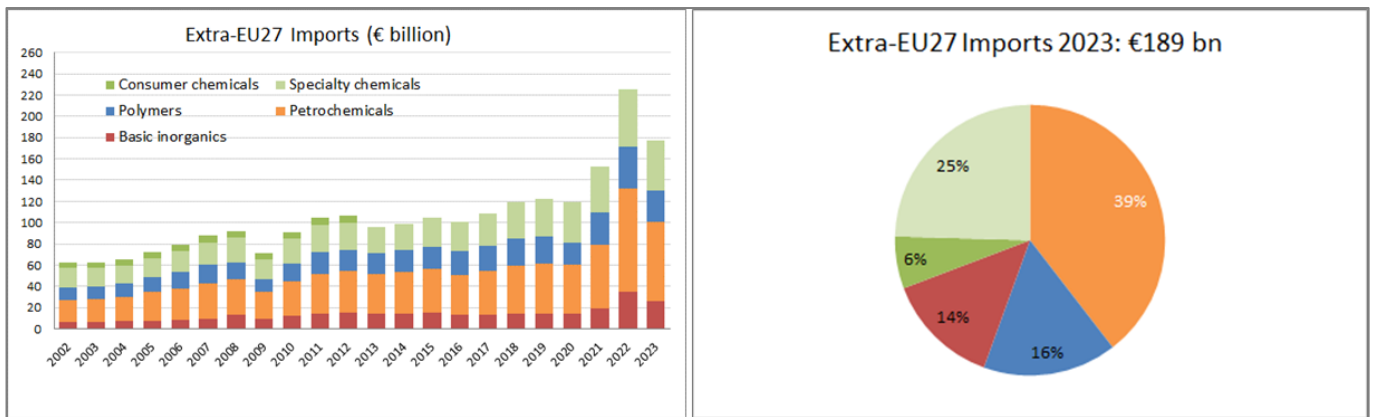
In January 2024, output of the entire EU27 manufacturing sector was significantly lower in comparison to January 2023 (-5.9%). With a 1.1% decline in production in January 2024 compared to January 2023, the EU27 chemical industry reported the second-lowest drop among the EU27 manufacturing sectors. Data shows a similar chemicals production level in January 2024 as in December 2023. Yet, the European chemical industry production volumes are still not recovering due to lack of demand growth, coupled with high regional energy and feedstock costs. The year 2024 shows a weak start for most sectors except for the food and beverage.



Source: Eurostat and Cefic analysis (2024)

✓ **EU27 chemicals imports severely reduced in 2023, but are still above 2021 levels**

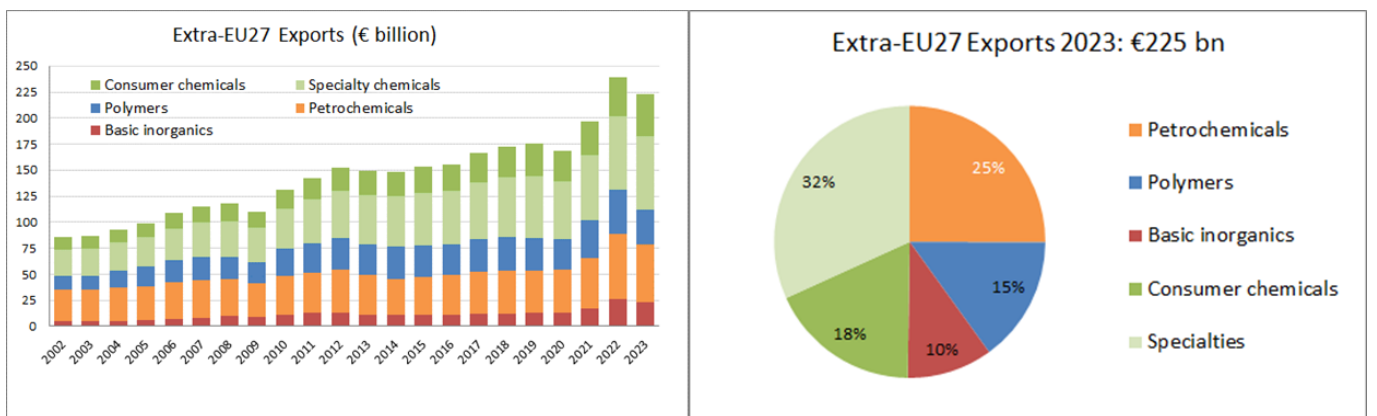
The crisis has affected not only the industry but also consumers who have seen their energy bill soar and the prices of consumer goods increase. A weak EU27 demand translates into a drop in EU27 imports. The embargo towards Russia has accelerated this trend. Imports from non-EU27 countries fell by 21% in 2023 versus 2022, but are still higher than 2021 import levels. Data analysis shows that EU27 chemicals imports from the rest of the world fell significantly by €49 billion from €238 billion in 2022 to €189 billion in 2023.



Source: Eurostat and Cefic analysis (2024)

✓ **EU27 chemicals exports declined significantly in 2023, but are still above 2021 levels**

EU27 chemicals exports dropped by 7% in 2023 compared to 2022. In the context of an economic crisis, it is certainly necessary to reduce production costs to better resist the sharp rise in the prices of raw materials and of energy. The only chance to increase EU27 chemical exports is to guarantee a fairly competitive producer price compared to non-EU competitors.

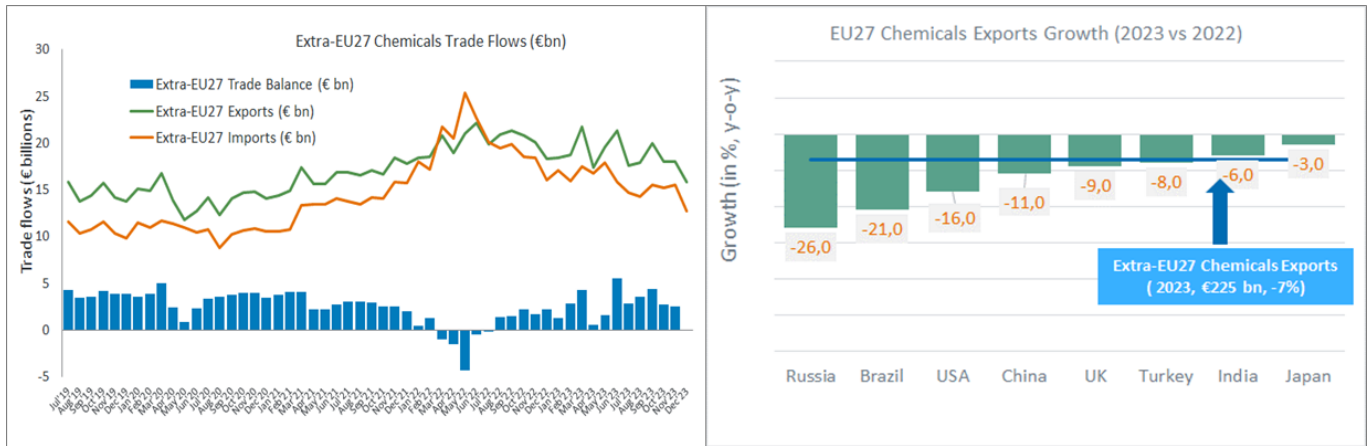


Source: Eurostat and Cefic analysis (2024)

The EU27 chemicals exports to the rest of the world fell significantly by €17 billion from €242 billion in 2022 to €225 billion in 2023, but remain 13% higher than in 2021. The largest export drop was with Russia (-26%), followed by Brazil (-21%), USA (-16%), China (-11%), UK (-9%), and Turkey (-8%). With 32%, specialty chemicals is the largest export sector, followed by petrochemicals (25%).

✓ **EU27 chemicals trade surplus, back to 2021 levels**

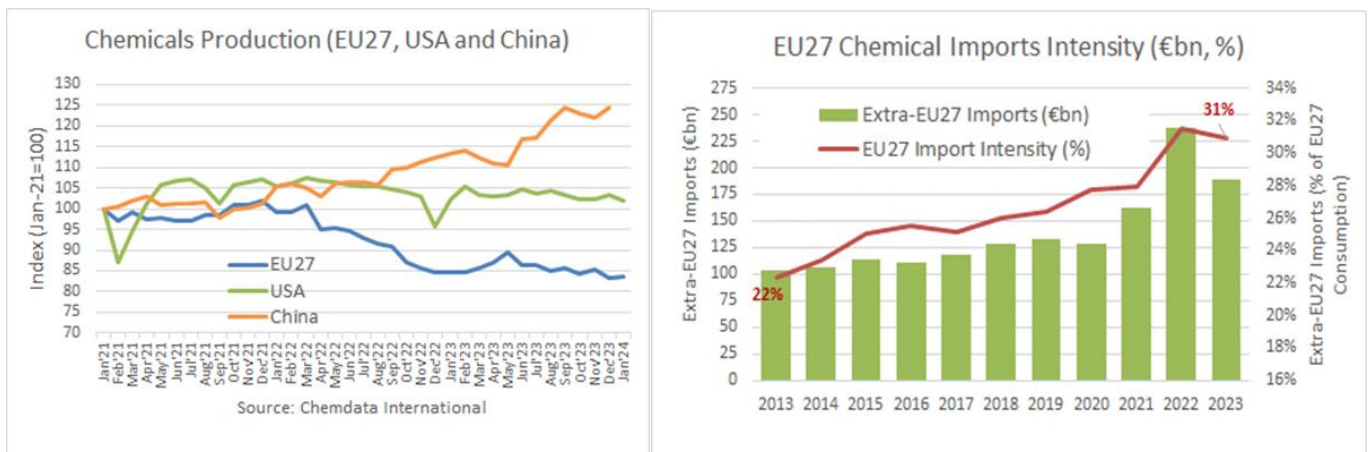
As can be seen above, in terms of trade activity, European chemicals generated less exports and less imports in 2023 than in 2022, but more than in 2021. The graph below shows a decrease in trade activity since July 2022. However, the fact that imports were more severely cut than exports has generated a trade surplus of €35.4 billion in 2023 which was very close to the 2021 level (€35.5 bn). It will be important to monitor the trend during the coming months.



Source: Eurostat and Cefic analysis (2024)

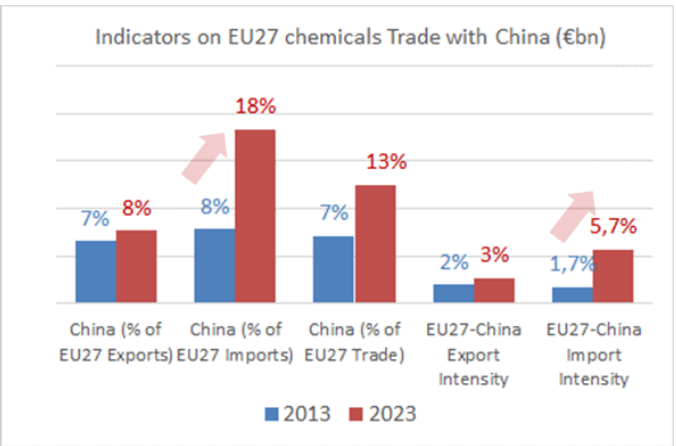
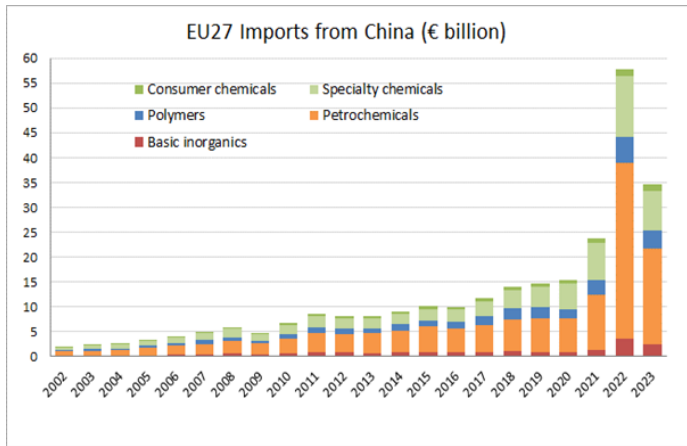
✓ **Europe’s reliance on non-EU27 imports gives cause for concern**

Trade is considered a key source of growth. Nearly one third of EU27 chemicals production was sold to non-EU27 markets in 2022. On the import side, the latest data shows that 31% of EU27 chemicals consumption was attributable to non-EU27 imports. Any country in the world constantly needs to import from abroad to satisfy domestic demand and stimulate the economy. So the question is to know what is the threshold of tolerance vis-à-vis competing countries. In other words, what is the threshold of import-dependency that must be accepted to guarantee a healthy economy. The graph below clearly shows that 31% of EU27 chemicals consumption is attributable to imports. In 2023, our dependence was 10% above 2013 levels. Monitoring the respective share of imports vs local production that fill the domestic demand is critical to assess the ‘health’ of the EU chemical industry: if imports continue to grow more steeply than domestic production, the EU simply further increases its dependency on non-EU countries, a trend we have already seen since 2013.



Source: Eurostat and Cefic analysis (2024)

China is our largest EU27 chemicals trade partners with the USA. Having a deep look on the EU27 chemical import intensity is really needed. Chinese chemical exports to high-cost Europe continued to increase over 2023/4 (primarily due to overcapacity in China with a favourable cost position). Europe is still reliant on imports of chemicals from China for several products. The graph below shows that EU27 chemicals dependency to China’s exports to the EU27 chemicals market has increased from 1.7% in 2023 to 5.7% in 2023.



Source: Eurostat and Cefic analysis (2024), *expressed in terms of import intensity (imports as % of EU27 consumption)