

Contact:

Dr Moncef HADHRI, Economic Affairs, mha@cefic.be

Press contact, Maria LINKOVA-NIJS, mln@cefic.be

Output in the EU27 chemicals sector is 0.7% below 2021's levels but supply chain bottlenecks are showing signs of easing

Key findings:

- ✓ **The Global Supply Chain Pressure Index dropped further**
The Global Supply Chain Pressure Index dropped further in June, but levels remain elevated and close to those seen during the first Covid-19 lockdown in Q2 2020. This is corroborated by the Harpex which shows that prices on the charter market for container ships have stabilised but remain high due to high levels of congestion. While easing restrictions in China has helped to alleviate global supply chain pressures, signs of weakening demand are concerning (source Oxford Economics Monthly Industry Briefing July 2022).

- ✓ **Various supply chain problems are dampening European automotive market**
The global light vehicle sales are still down by 8.5%. The global light vehicle selling rate jumped to 85 million units/year in June, from 76 million units/year in May, as lockdown measures in China eased, but year-to-date global sales are still down by a considerable 8.5%. Supply chain issues remain prevalent given persistent chip shortages while a further drop in Russian gas supply will hit European automotive production. The European light vehicle selling rate was virtually unchanged at 11.3 million units/year in June. Various supply chain problems and high inflation continue to dampen automotive production and sales, while the recent announcement of further Russian gas supply cuts to the region to just 20% capacity will likely lead to automotive production cuts (source Oxford Economics Monthly Industry Briefing July 2022).

- ✓ **The manufacturing PMIs worsened for the US, Japan and the eurozone**
Supply chain bottlenecks are showing signs of easing just as demand conditions begin to soften, dampening global industrial growth prospects for the second half of this year and into 2023. The global industrial production recovered some ground in May following two months of decline, but this was largely due to easing lockdown measures in China, which have helped to ease global supply chain pressures. However, the latest set of July flash manufacturing PMIs (The Purchasing Managers Index) worsened for the US, Japan and the eurozone (source Oxford Economics Monthly Industry Briefing July 2022).

- ✓ **The Economic Sentiment indicator falls below its long-term average**
In July 2022, the Economic Sentiment Indicator (ESI) plummeted in both the EU and the euro area, falling below its long-term average. The drop in the ESI in July was due to significant losses in industry, services, retail trade and consumer confidence, whereas confidence in construction decreased more mildly. The ESI fell markedly in four out of the six largest EU economies, Spain, Germany, Italy and Poland, while it remained broadly stable in France and the Netherlands (source Business and consumer survey results for July 2022).

- ✓ **Chemicals business confidence continue to decline and competitive position worsened markedly**
The Economic Uncertainty Indicator (EUI) rose further in July in the whole economy. Uncertainty remained broadly stable in industry and construction. The EU chemicals business confidence continue to decline. The decrease in confidence resulted from significant deteriorations in managers' assessment of the current level of overall order books and their production expectations, which dropped to more than a 20-months low. According to the latest quarterly survey results (July-2022), while managers' export volume expectations increased compared to April, the assessments of their competitive position on non-EU markets over the past three months worsened markedly. Nevertheless, the estimated number of months' production assured by orders on hand remained unchanged at a very high level of 5.1 months (source Business and consumer survey results for July 2022).*

- ✓ **The Russia-Ukraine war continues to weigh strongly on European chemicals producers**
In the EU27 area, chemicals production declined by 0.7% in January-June 2022 compared to the first half of 2021. Output in the chemical industry fell markedly in two out of the largest EU economies, Germany (-5.2%), and France (-1.9%), while it remained broadly stable in Italy (+0.4%). The impact of the Russia-Ukraine war continues to weigh strongly on European chemicals producers. In addition to elevated energy and feedstock prices, Russia has begun to drastically reduce gas supplies, raising the risk of gas rationing to the industry. This also shows in sector confidence, which declined markedly for the fourth month in a row according to the European Commission (source Oxford Economics Monthly Industry Briefing July 2022).