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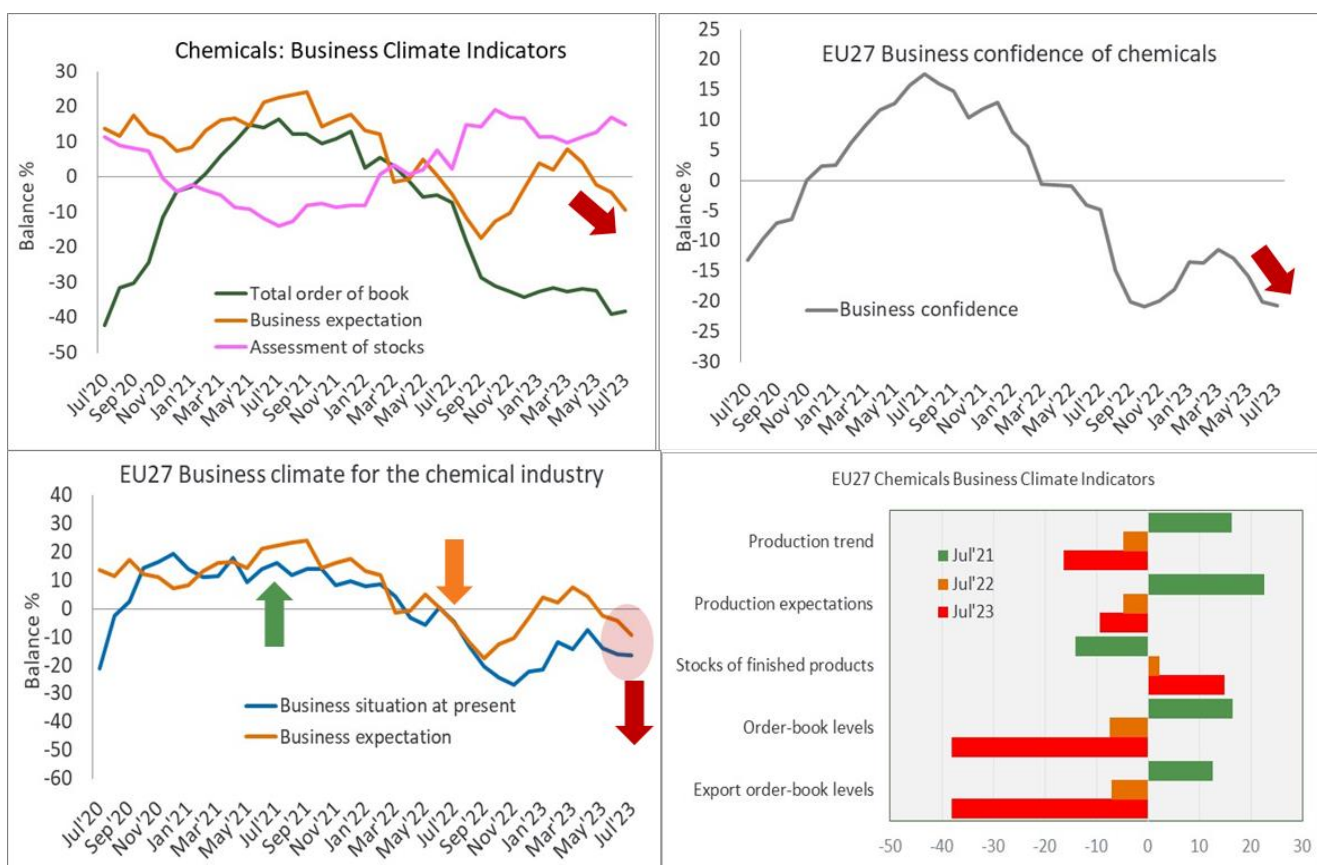
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**H1 2023: Low Demand, High Energy Costs Stifle European Chemicals Market**

**1. Chemicals – Key findings**

- ✓ **Confidence of the EU27 chemicals industry weakened for the fourth month in a row**  
 According to the results of the EU business and consumer survey (July 2023), the confidence of the chemicals industry weakened for the fourth consecutive month. This is due to a significant deterioration in the managers' production expectations, which showed a decrease in July 2023 compared to June 2023. The managers' assessments of the current level of overall order books were slightly better in July 2023 compared to the previous month, but are still far below the 2021 pre-crisis levels. While stocks of finished products declined slightly in July 2023, they are anyway assessed as too large/above normal. Currently, the business situation remains stable but it is not satisfactory as the chemicals business climate continues to show persistent issues. Despite the significant decline of the energy prices recorded over the past 12 months (July 22-July 23), the sector is still suffering from lack of demand (source: EU business and consumer survey, July 2023)

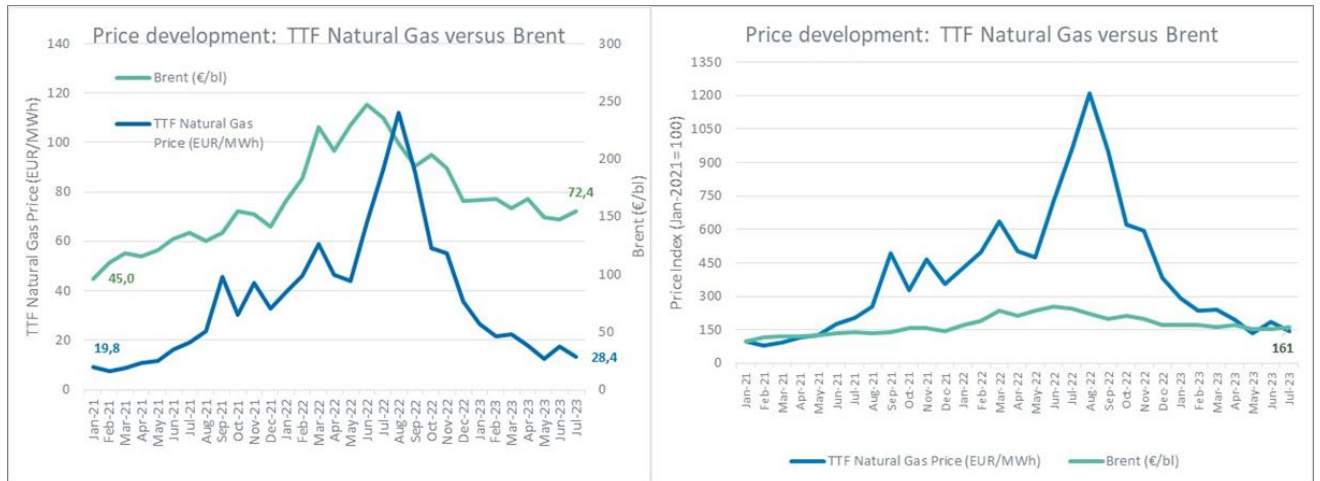


Source: EU Commission business and consumer survey and Cefic Analysis (2023)

<sup>1</sup> Unless specified, chemical industry excludes pharmaceuticals.

✓ **European gas prices lower than in 2022, but still 4.3 times more expensive than in the USA**

Data shows a deep decline in gas prices since August 2022. In 2023 (Jan-July), natural gas prices in Europe amounted to 40.4 (EUR/MWh) in nominal terms, which is 66% below 2022 level (119.7 EUR/MWh). The chemical industry depends on competitive electricity prices. Even though the electricity costs have fallen, they are still above the pre-crisis level. Moreover, gas prices in Europe are still on average 4.3 times higher than the ones paid in the US. According to the latest VCI survey, almost 90% of German companies rate the energy costs as bad or very bad in an international comparison. Confidence in Germany as a business location is fading (source: VCI Press Release, 21 July 2023)

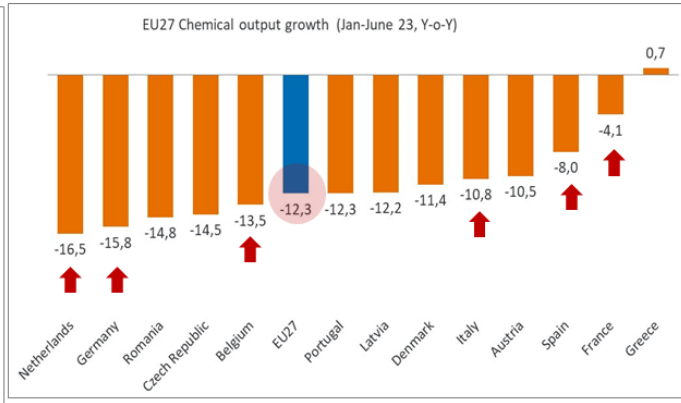
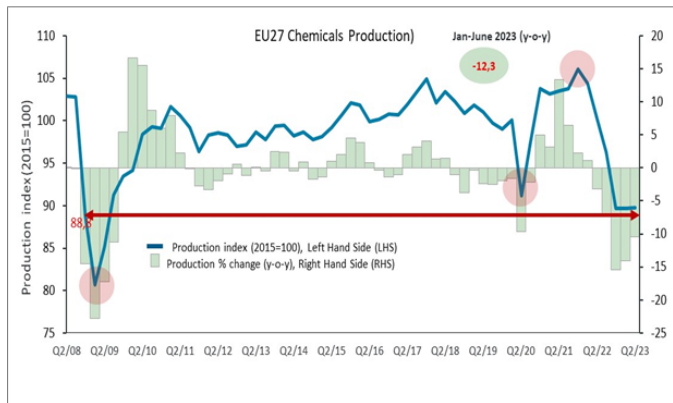


Source: <https://www.investing.com/commodities/ice-dutch-ttf-gas-c1-futures-historical-data> & Cefic Analysis (2023)

✓ **EU27 chemicals production in H1-2023 was 12.3% down compared to H1-2022**

In Q2-2023, production of the chemical industry remained stable at the same level recorded in Q4-2022. It is also approaching similar levels as seen in the first Covid lockdown in 2020 (Q2-2020). EU27 Chemicals production in the first six months of 2023 was 12.3% lower compared to the same period of 2022. The results of this first half of the year are disappointing for most countries, as the spillover effect of the 2022 energy crisis are severely impacting most business sectors in 2023. The Netherlands and Germany were amongst the EU countries most impacted by the energy crisis, and they are now both recording a production decline of over 15%.

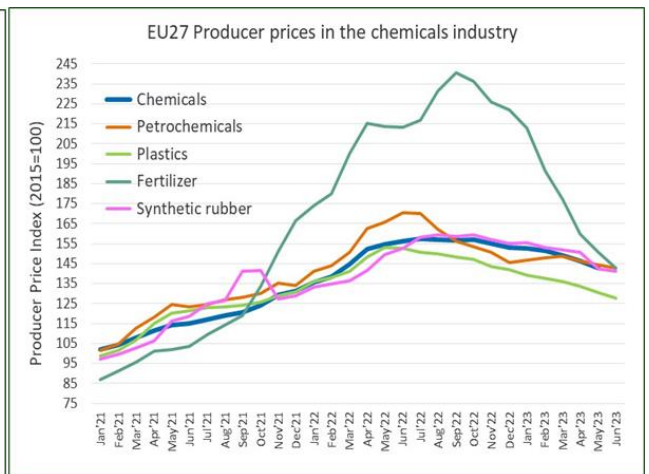
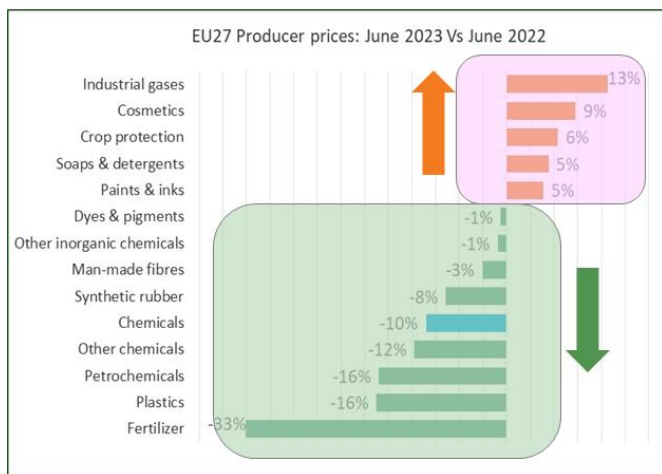
Looking at specific sectors of the chemicals business, basic chemicals sectors continued to see a double-digit decline. H1-2023 output of inorganic basic chemicals was roughly 14% lower in comparison to the same period of the previous year. A marked downturn was recorded for petrochemicals and polymers as well. The drop in the production of specialty chemicals was comparatively moderate.



Source: Eurostat and Cefic Analysis (2023)

✓ **EU27 chemical selling prices were 10% lower than in June 2022**

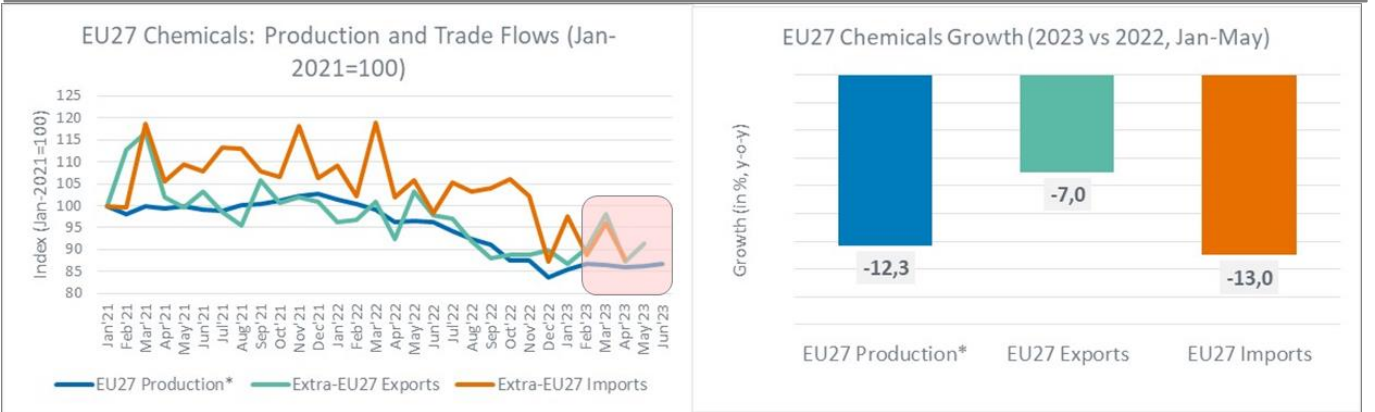
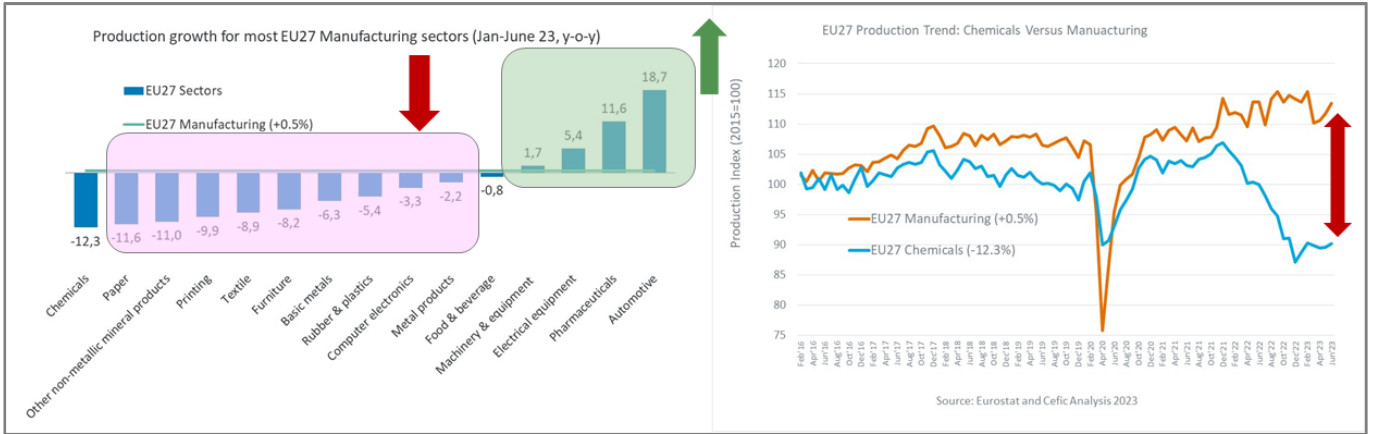
In the first half of 2023, the EU27 chemical selling prices reached the same level of H1-2022, but June 2023 recorded a drop. In June 2023, EU27 chemical selling prices were 10% lower than the ones from June 2022. Basic chemicals sectors continued to see selling prices declines in the double-digit range.



Source: Eurostat and Cefic Analysis (2023)

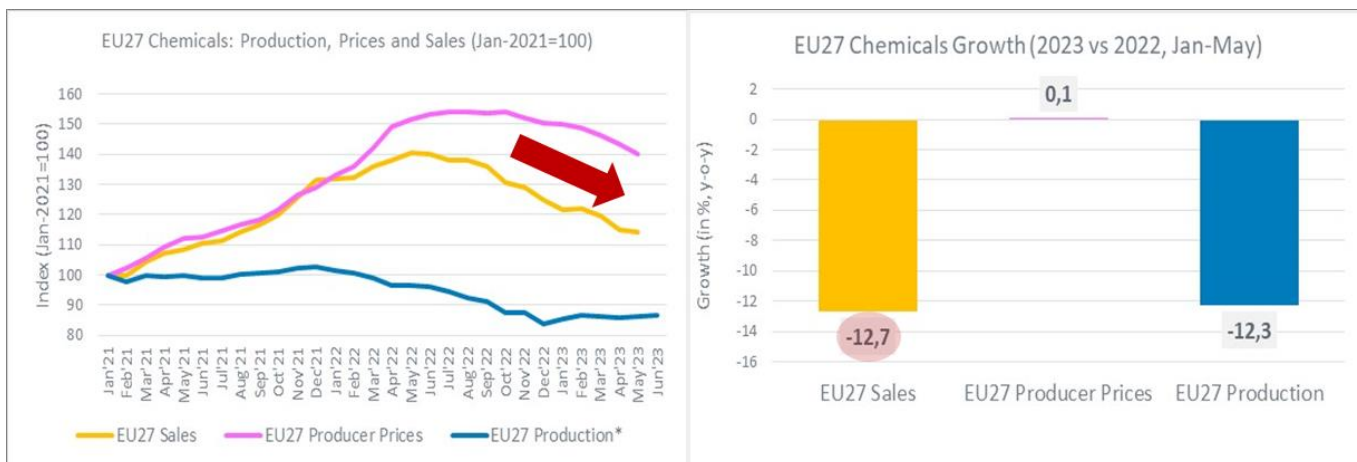
✓ **The European chemical industry is losing competitiveness on global chemical markets**

The European chemical industry started very weak into 2023: both domestic and export demand remained very weak, therefore in the first six months of 2023 production declined sharply in comparison to the previous year. Chemicals output declined by -12.3%, whereas other manufacturing sectors continued to grow (+0.5%). Sectors such as electrical equipment (+5.4%), pharmaceuticals (+11.6%) and automotive (18.7%) have contributed to limit the effects of the energy crisis on the EU27 manufacturing sector as a whole. The European chemical industry is losing competitiveness on global chemical markets due to high regional energy and feedstock costs. In 2023, exports and imports are declining significantly (in volume terms). This clearly points out the increasing pressure on the European chemical sector amid intense competition on global chemical markets in times of weak global demand and low capacity utilization.



Source: Eurostat and Cefic Analysis (2023)

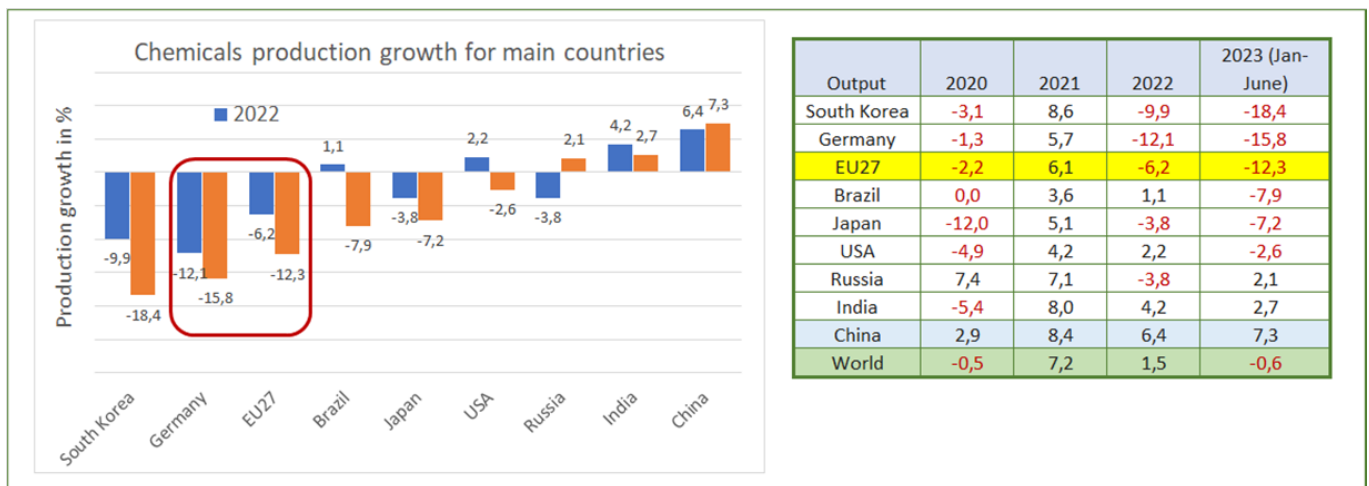
✓ **High price pressure and weak demand contributed to poor chemicals sales**  
*The EU27 chemicals sales decline in 2023 (-12.7%) comes with a persistently difficult earnings situation for companies. Capacity utilisation level in the chemical industry declined significantly, and in Q2-2023 it stood around only 74%. The capacity utilisation level is approaching similar levels as seen in the first Covid lockdown in 2020. The weak level of capacity utilisation is mainly driven by energy costs and lack of demand. At €285 bn, sales in the chemicals industry for the first five months of 2023 are far below the levels recorded during the same period last year. According to a survey among the VCI membership, almost two thirds of German companies reported falling profits or even losses in 2023. (source: VCI press Release, 21 July 2023)*



Source: Eurostat and Cefic Analysis (2023)

✓ **The recovery is likely to be slow and sluggish**

The significant drop in energy and raw materials prices was expected to provide short relief at the beginning of 2023. That did not happen. Hopes for a recovery after the mild winter and with much lower gas and electricity prices have not materialised. In contrast, the demand for chemicals is still on the decline. The recovery will probably be slow and sluggish. According to Oxford Economics Report (July 2023), the second half of 2023 is expected to be tough for chemical firms, as weak industrial demand will continue to weigh on new orders. Elevated interest rates, tighter lending conditions and persistent inflationary pressures will continue to weigh on goods producing industries that chemical firms sell to. In view of the weak business situation of industry generally, the output of chemicals is expected to decline significantly in the year 2023. With falling prices overall, the industry's sales are likely to go down markedly. Weak global demand from key downstream sectors and persistently high energy costs will continue to weigh on the sectors prospects into 2024. European gas prices have eased significantly but remain 70% above their average 2015-19 level (source: Oxford Economics Monthly Industry Briefing/Global Industry-July 2023)



Source: Eurostat and Cefic Analysis (2023)

**2. Business environment – Key findings**

✓ **The confidence of the EU industry as a whole is declining**

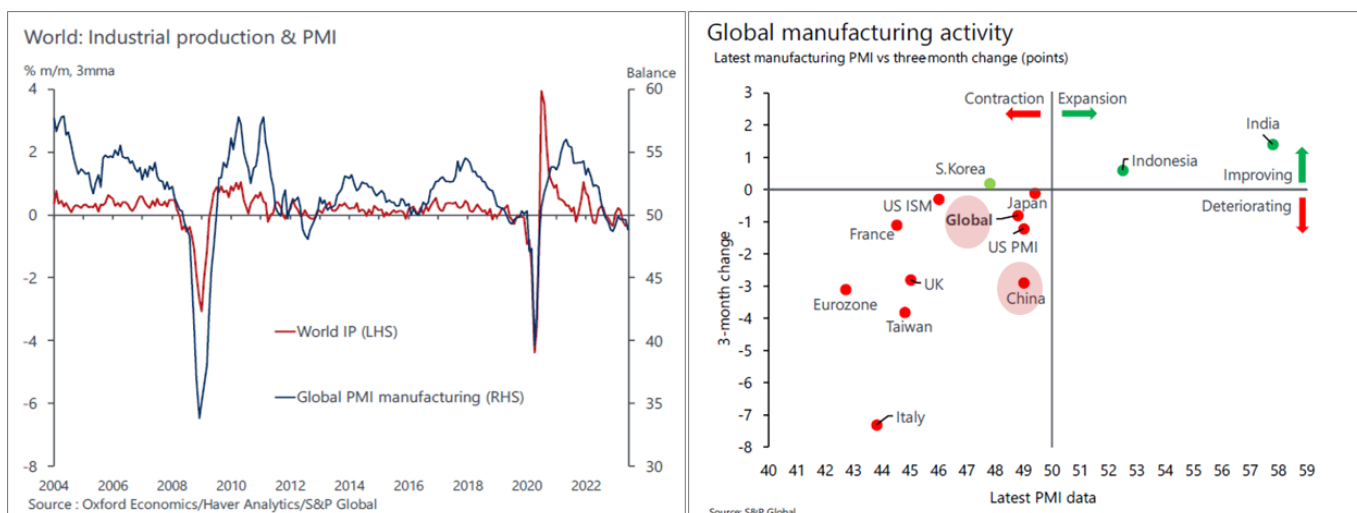
The confidence of the EU industry as a whole is also declining: according to the EU business and consumer survey (July 2023), it weakened for sixth consecutive month. The production expectations of the managers and their assessments of the July 2023 level of overall order books deteriorated markedly. Over the past six months, the stocks of finished products were increasingly assessed as too large compared to normal levels. Lastly, managers were more negative about developments in past production and their assessments of export order books (source: EU business and consumer survey, July 2023).

✓ **Global industrial production grew weakly in May 2023**

According to Oxford Economics Monthly Report (July 2023), global industrial production grew by a mere 0.2% in May 2023 in comparison to April 2023. Due to this modest growth, combined with the declines recorded over the previous months, the level of output in May 2023 reached its second-

lowest point over the last 14 months. The Purchasing Managers' Index (PMI) deteriorated as well: after three months of hovering at 49.6, the global manufacturing PMI dropped to 48.8. Industrial production in the US grew by a meagre 0.2% in Q2-2023 compared to Q1-2023. The July 2023 US manufacturing flash PMI reading was 49.0. This reading is substantially stronger than the reading of June 2023 (46.3), but it lies anyway under the expansion threshold of 50.

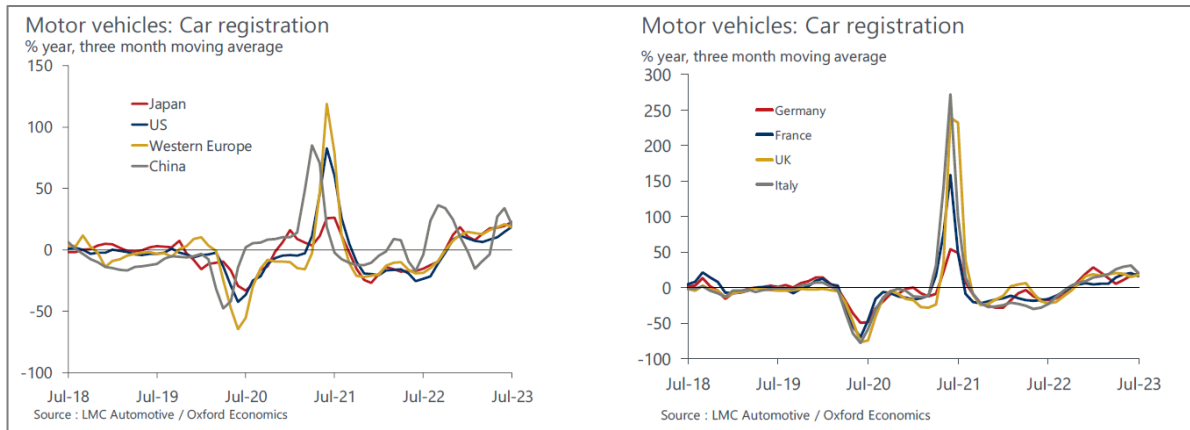
Source: Oxford Economics Monthly Industry Briefing (July 2023)



China's industrial production improved modestly in June 2023, growing by 0.7% compared to May 2023. This was the strongest growth recorded in 2023 for China. However, industrial profits have been falling significantly in comparison to last year. At the same time, industrial producer prices are declining, which is indicative of weak demand, both externally and internally. Elsewhere in Asia: Japan's production grew by 2.5% in June 2023, while South Korea and Taiwan saw modest production declines in June 2023 (source: Oxford Economics Monthly Industry Briefing/Global Industry-July 2023).

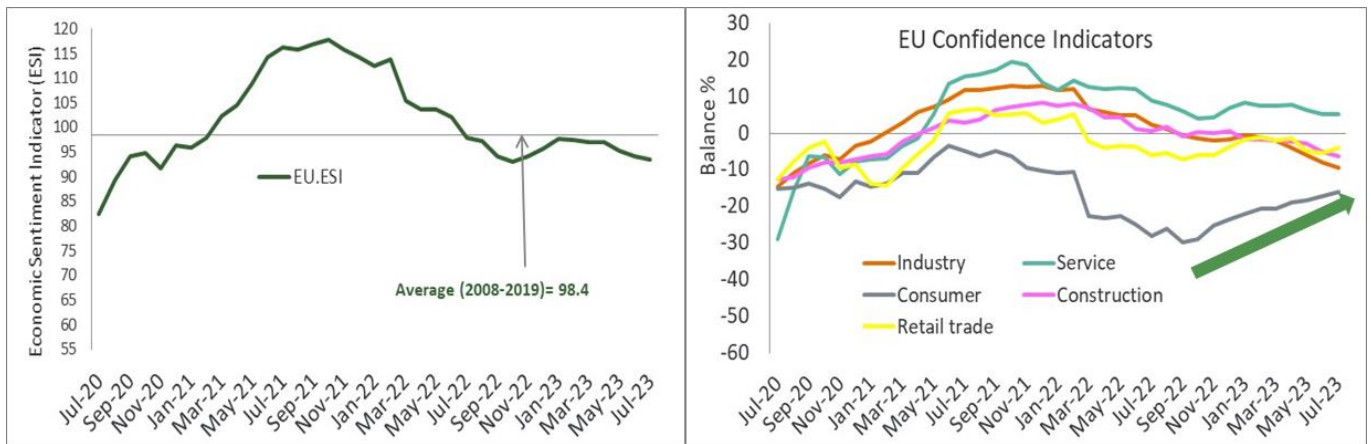
✓ **Automotive production is supported by easing supply chains constraints**

According to Oxford Economics Monthly Report (July 2023), in June the global selling rate of light vehicle rose to 93 million units/year, up from 89 million units/year recorded in May 2023. The latest monthly production data across key developed countries suggest high order backlogs and easing supply constraints continue to support production. Persistent inflation will continue to weigh on real disposable incomes prompting further interest rate hikes, dampening automotive sales ahead. On the supply side, overcoming supply chain issues contributed to a steady rise in automotive production, but there are signs that momentum is slowing (source: Oxford Economics Monthly Industry Briefing/Global Industry-July 2023).



Source: Oxford Economics Monthly Industry Briefing (July 2023)

- ✓ **EU27 consumer confidence continued its recovery from the all-time low of September 2022**  
 According to the results of the EU business and consumer survey (July 2023), consumer confidence continued its recovery from the all-time low of September 2022, fuelled by improvements in consumers' views on their household's past financial situation and the future financial situation, as well as the expected general economic situation in their country. Consumers' intentions to make major purchases remained virtually unchanged. Data shows that the decline of EU27 Economic Sentiment Indicator (ESI) in July 2023 was due to significantly lower confidence among managers in industry and construction, only partially offset by markedly higher confidence in retail trade and among consumers (source: Business and consumer survey results for July 2023).



Source: EU Commission business and consumer survey and Cefic Analysis (2023)