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2023 ends on a weak note for the chemicals industry in Europe

✓ Summary

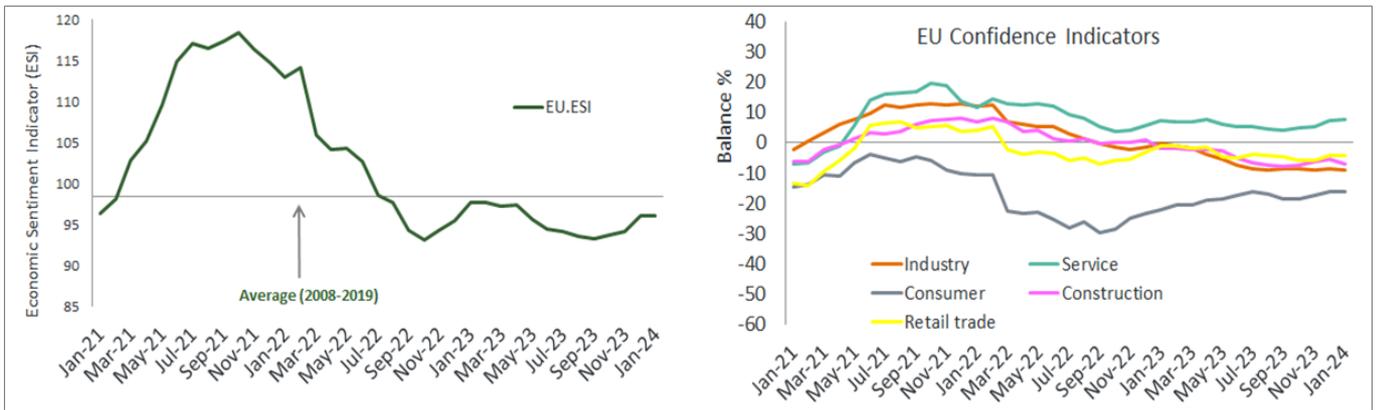
- *Compared to 2022, the European chemicals industry in 2023 produced less, exported less and imported less. Germany is not yet recovering, and full recovery is still way off for most EU27 countries. Two of the main drivers affecting the European chemical industry's competitive edge are: high energy costs and trade dependency in times of geopolitical disruptions. It will be key to reduce energy costs in Europe and improving strategic partnerships regarding raw material supplies, strengthening our position as component supplier for European value chains and for export markets.*
- *Though confidence in the European chemicals industry is slightly improving, it is still below the long-term average. The weak global demand is not helping the European chemicals companies. The business environment climate is modest and needs strong improvement to come back to the pre-crisis level. The EU27 chemical industry reported its fifth-largest drop in production in 2023 compared to 2022 (-8.0%). The decline in production continues to impact the EU27 chemicals trade flows with the non-EU27 area. EU27 chemicals exports to the rest of the world fell in 2023 by €16 billion compared to 2022. EU27 chemicals imports fell by €46 billion during the same period.*
- *According to the Antwerp Declaration for a European Industrial Deal: "an Open Strategic Autonomy for a competitive and resilient EU is crucial for the transition of Europe in an ever changing geopolitical landscape. It can however only be achieved if also basic and energy intensive industries remain and invest in Europe. Without a targeted industrial policy, Europe risks becoming dependent even on basic goods and chemicals. Europe cannot afford this to happen".*

1. Comparing confidence levels

✓ EU27 economic sentiment remained broadly stable

In January 2024, the Economic Sentiment Indicator (ESI) stabilised in both the EU and the euro area. The ESI deteriorated markedly in Germany, the largest of EU economies, whereas it improved in Poland, France, the Netherlands, Italy and Spain. Overall, confidence in industry, services, retail trade and among consumers remained broadly stable, while confidence in construction dropped. (source: EU27 business and consumer survey, January 2023).

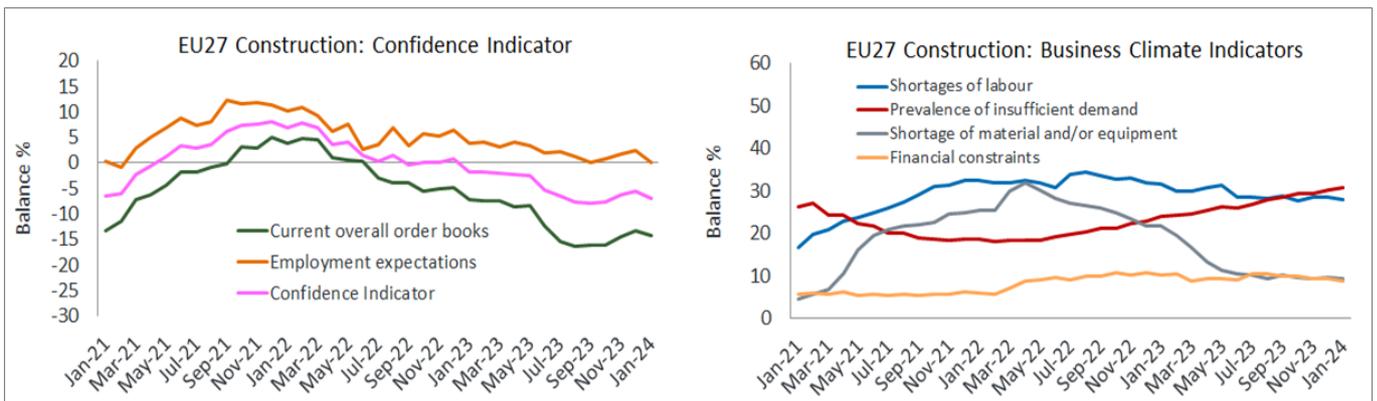
¹ Unless specified, chemical industry excludes pharmaceuticals.



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

✓ **EU27 construction confidence worsened markedly**

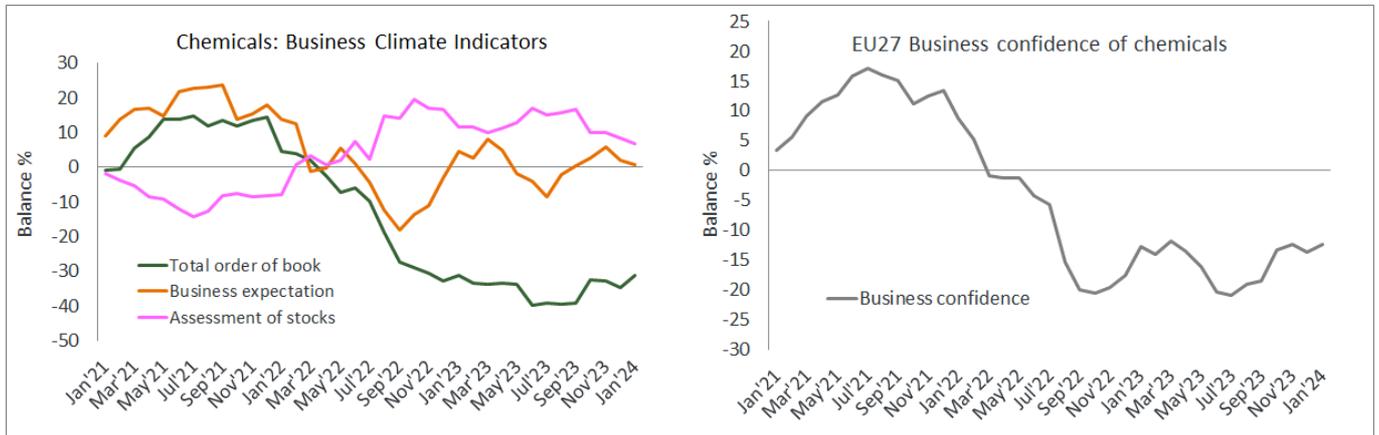
Fluctuation in the construction, sector, as one of the largest outlets for the chemical industry, is important to monitor. Construction confidence worsened markedly as both builders' employment expectations and their assessment of the level of order books deteriorated. The percentage of construction managers indicating insufficient demand as a factor limiting construction activity increased further. By contrast, the percentage of construction managers indicating labour shortages, material/equipment shortages or financial constraints as limiting factors decreased (source: EU27 business and consumer survey, January 2023).



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

✓ **EU27 chemicals confidence slightly improved**

The latest economic survey shows a slight increase in confidence in the EU27 chemical industry. In January 2024, chemicals production expectations went down for the second time since Dec-2023. However, it continues to remain in the positive digits. The assessments of the stocks of finished products decreased slightly. The managers' opinion on the current level of overall order books shows significant improvement. The chemicals confidence indicator improved slightly, yet is still at a low level.

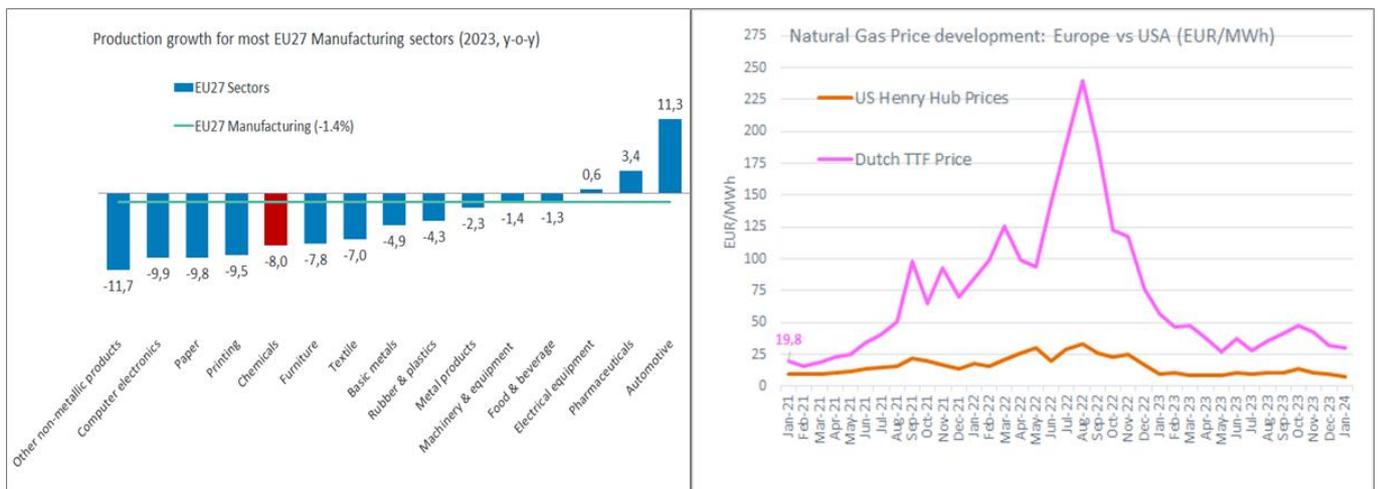


Source: EU27 commission business and consumer survey and cefic analysis (2024)

2. EU27 chemical demand remains low in 2023

✓ EU27 manufacturing production: 2023 was 1.4% below 2022 across sectors

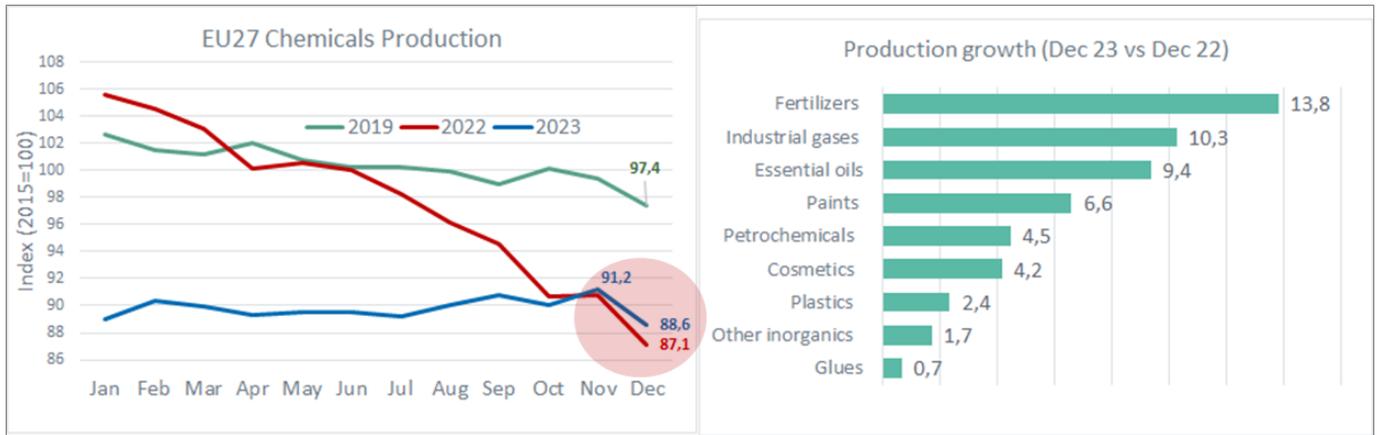
2023 output of the entire EU27 manufacturing sector was significantly lower in comparison to 2022 (-1.4%). With 8.0% decline, the EU27 chemical industry reported the fifth-largest drop in production in 2023. Sectors such as electrical equipment, pharmaceuticals and automotive are less affected by the effects of the energy crisis compared to the EU27 manufacturing sector as a whole. 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.



Source: Eurostat and Cefic Analysis (2024)

✓ EU27 chemical output increased by 1.7% in Dec-2023 compared to Dec-2022

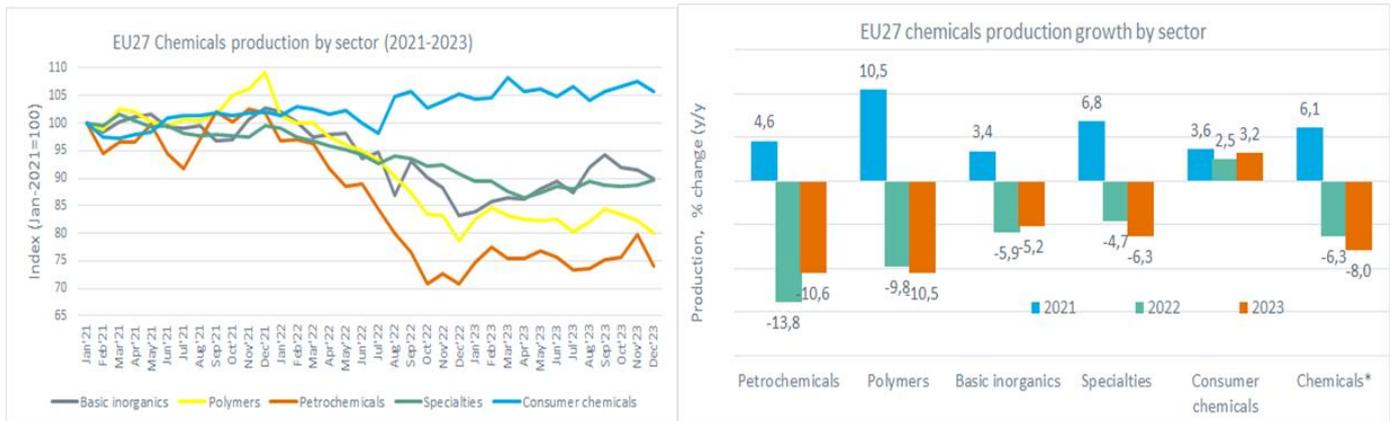
The EU27 chemical production saw a decrease of 2.9% in December 2023 compared to November 2023. December 2023 data shows that EU27 chemical production was above 2022's level for the second time (1.7%). It is too early to confirm if this upturn will be stable or not. The capacity utilisation level in the EU27 chemical industry in Q4-2023 stood around only 74.7%. Its levels are approaching similar levels as seen in the first Covid lockdown in 2020.



Source: Eurostat and Cefic Analysis (2024)

✓ **EU27 basic chemicals sectors reported a double-digit decline in 2023**

Focusing on the broader chemicals sectors, basic chemicals sectors continued to report a double-digit decline. 2023 output of petrochemicals was 10.6% lower compared to 2022. A marked downturn was recorded for polymers (-10.5%). The drop in the production of basic inorganics (-5.2%) and specialty chemicals (-6.3%) was moderate. With 3.2% growth, consumers chemicals (soaps, detergents and cosmetics) is the only sub-sector still doing well compared to the other chemicals sub-sectors.

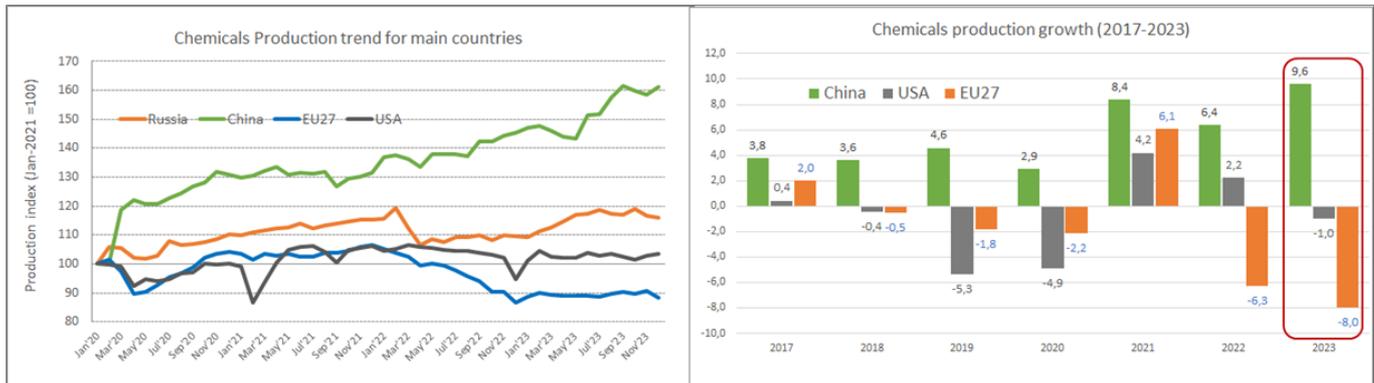


Source: Eurostat and Cefic Analysis (2024)

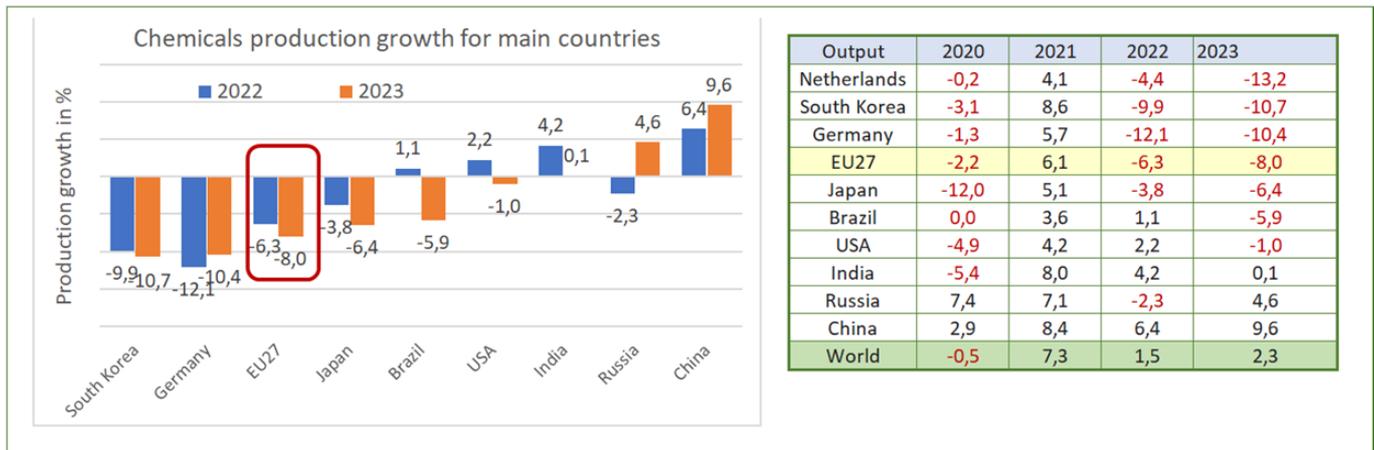
✓ **In 2023, China reached its highest production levels since 2015**

The chart below shows the latest development for key chemical producing countries in the world. China is still reporting the highest chemical production since 2015, and chemical output in 2023 was 9.6% above the previous year's level, a picture that starkly contrasts with the European situation. China and key emerging countries will continue to play a key role in global demand.

In view of the weak business situation of the industry in general, the output of chemicals declined significantly in the year 2023 for most chemicals producing countries, except for China, Russia and India. 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. Global chemical production grew by 2.3% in 2023. 2024 global growth is expected to be below the structural growth of more than 3.0%.



Source: Eurostat and Cefic Analysis (2024)

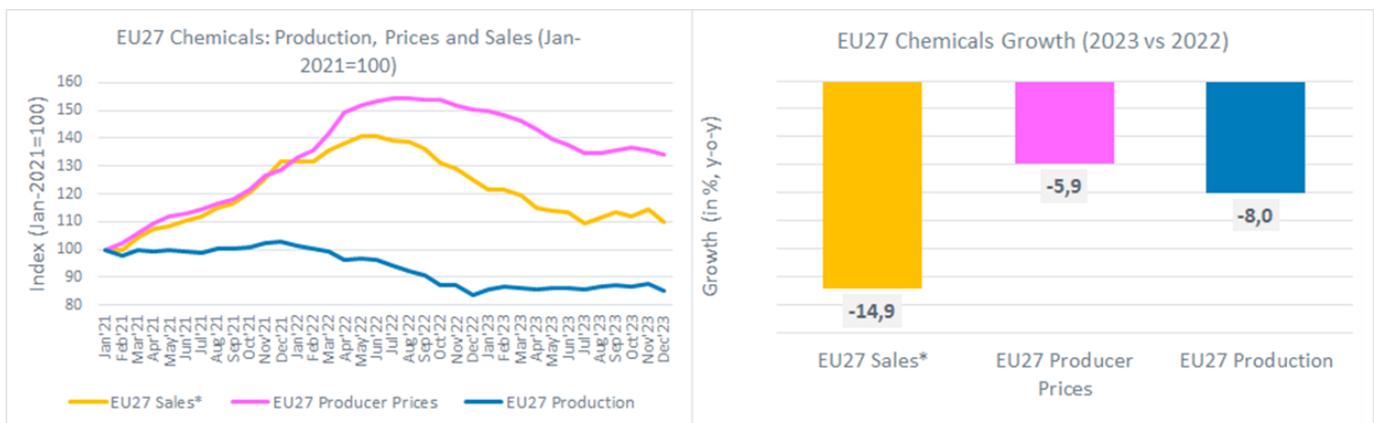


Source: Eurostat and Cefic Analysis (2024)

3. Shrinking sales and trade in 2023

✓ **EU27 chemical sales: 2023 was 14.9% below 2022**

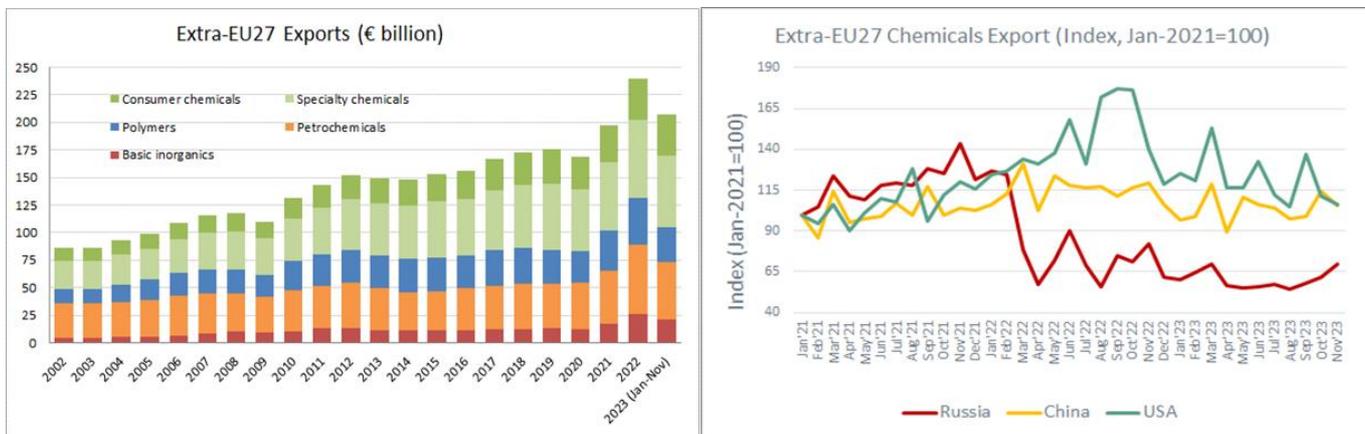
At €661 bn, sales in the EU27 chemical industry for 2023 were 14.9% below the 2022's levels. Monthly data on sales showed an increase of the EU27 chemicals sales in November 2023 by 2.1% compared to October 2023. EU27 chemicals sales in 2023 is expected to be slightly higher than in 2021. The global economic and business environment is still uncertain for the European chemicals companies.



Source: Eurostat and Cefic Analysis (2024), *Dec data are estimated for sales

✓ **EU27 chemicals exports* at €208 bn, down by 7% in 2023 (Jan-Nov)**

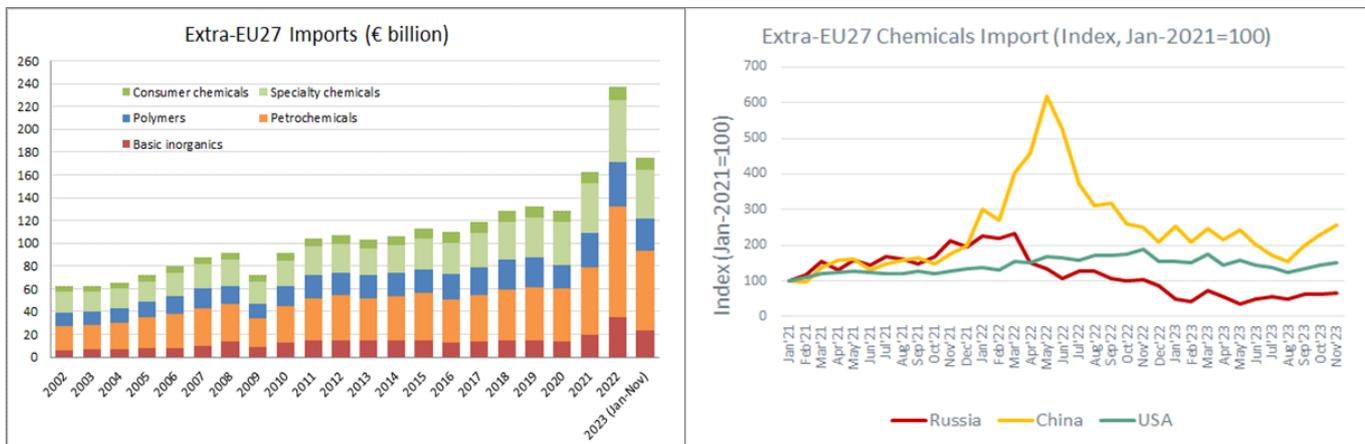
EU27 chemicals exports were severely impacted by the energy crisis. EU27 chemicals exports to the rest of the world fell significantly by €16 billion from €224 billion in 2022 to €208 billion in 2023 (Jan-Nov). The largest export drop was with Russia (-27%), followed by Brazil (-22%), USA (-17%) and China (-11%). In Nov-2023, EU27 chemicals exports were 10.7% lower than in Nov-2022.



Source: Eurostat and Cefic Analysis (2024)

✓ **EU27 chemicals imports* at €176 bn, down by 21% in 2023 (Jan-Nov)**

EU27 chemicals imports from the rest of the world fell significantly by €46 billion from €222 billion in 2022 to €176 billion in 2023 (Jan-Nov). The largest import drop was with Russia (-63%), followed by China (-42%), Turkey (-24%). In November 2023, EU27 chemicals imports were 18% lower than in November 2022.



Source: Eurostat and Cefic Analysis (2024)