

**Contact:**

Dr Moncef HADHRI, Economic Affairs, [mha@cefic.be](mailto:mha@cefic.be)

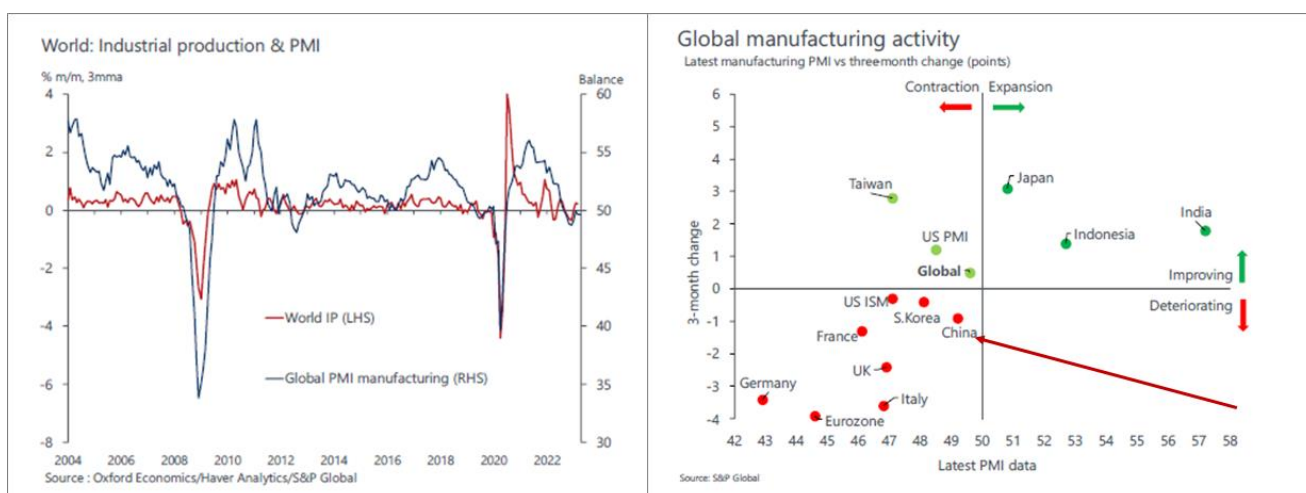
Media contact: Elisa TODESCO, [eto@cefic.be](mailto:eto@cefic.be)

## EU Chemical Sector's Competitive Edge Erodes Amid Global Demand Weakness

**Key findings:**

- ✓ **Global industrial production shrank and the performance of China's industry continues to disappoint**

According to Oxford Economics Monthly Report (May 2023), global industrial production shrank by 0.2% in March 2023 compared to February 2023. In April 2023, the global manufacturing PMI remained unchanged at 49.6. Industrial production in the US grew by 0.5% in April 2023 compared to March 2023. Growth was driven by manufacturing, which grew by 1.0%, but production is still at subdued levels compared to most of 2022. There are many signs of weakness in the market for goods, for example in truck freight transportation, where operators are struggling heavily facing overcapacity, low demand, and falling prices.



Source: Oxford Economics Monthly Industry Briefing (May 2023)

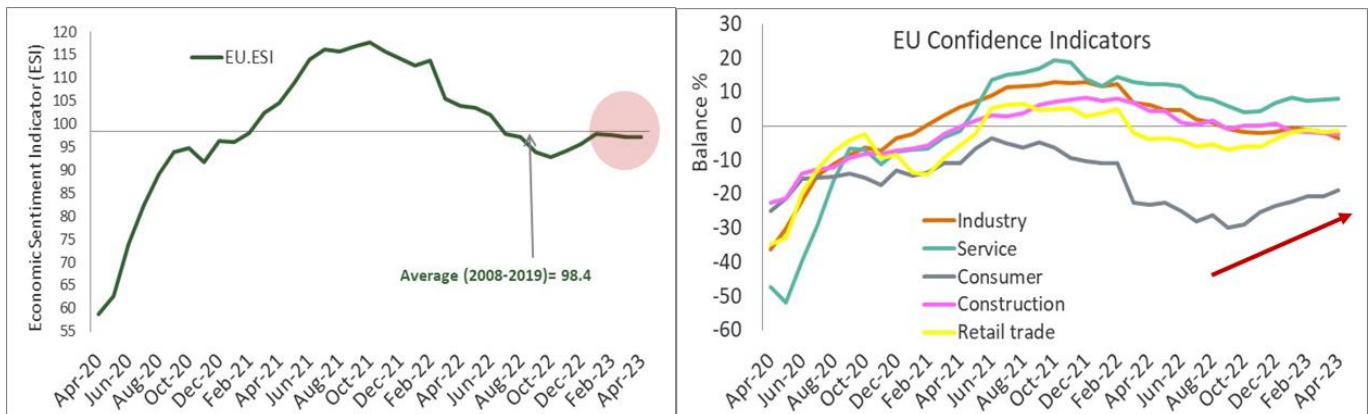
China's industry continues to disappoint. Following several months of unimpressive post-reopening growth, Chinese industrial production shrank by 0.5% in April 2023 compared to March 2023. China's consistent underperformance is driven by weak fixed investment and consumer goods spending and is weighing on the global prices of metals and commodity. The fading momentum from economic reopening, a weak global environment, and unwillingness for more government stimulus will weigh on activity. This weak outlook is consistent with the latest manufacturing PMI readings of 48.8, a five-month low. Activity in other Asian industrial powerhouses, including Japan, Taiwan, and South Korea, continued to be weak according to the

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

latest monthly data. (source: Oxford Economics Monthly Industry Briefing/Global Industry-May 2023)

✓ **EU27 consumer confidence continued recovering as gas prices continue to fall**

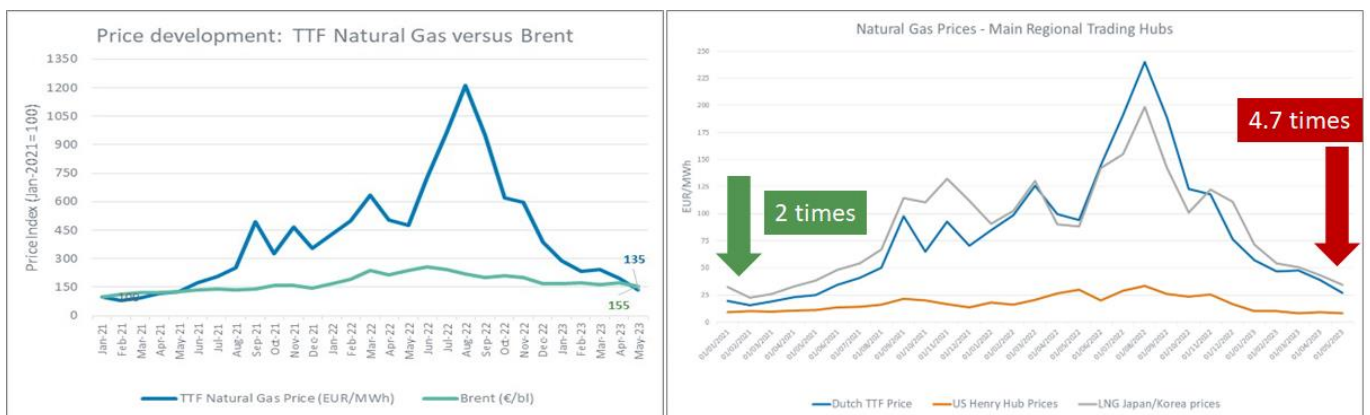
According to the results of the EU business and consumer survey (May 2023), the Economic Sentiment Indicator (ESI) in the EU27 area decreased in May 2023. The decrease of the ESI was due to lower confidence in industry, in services and, particularly, in retail trade. Confidence in construction remained broadly unchanged. Meanwhile consumer confidence continued recovering, albeit at a reduced pace. Amongst the largest EU economies, the ESI deteriorated in Spain, Germany, Italy and the Netherlands, whereas it improved in Poland and France. While continuing the recovery from its all-time low in September 2022, consumer confidence improved very modestly compared to April. The mild increase was thanks particularly to consumers' more positive assessments on their household's past and future financial situation (source: business and consumer survey results for May 2023).



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

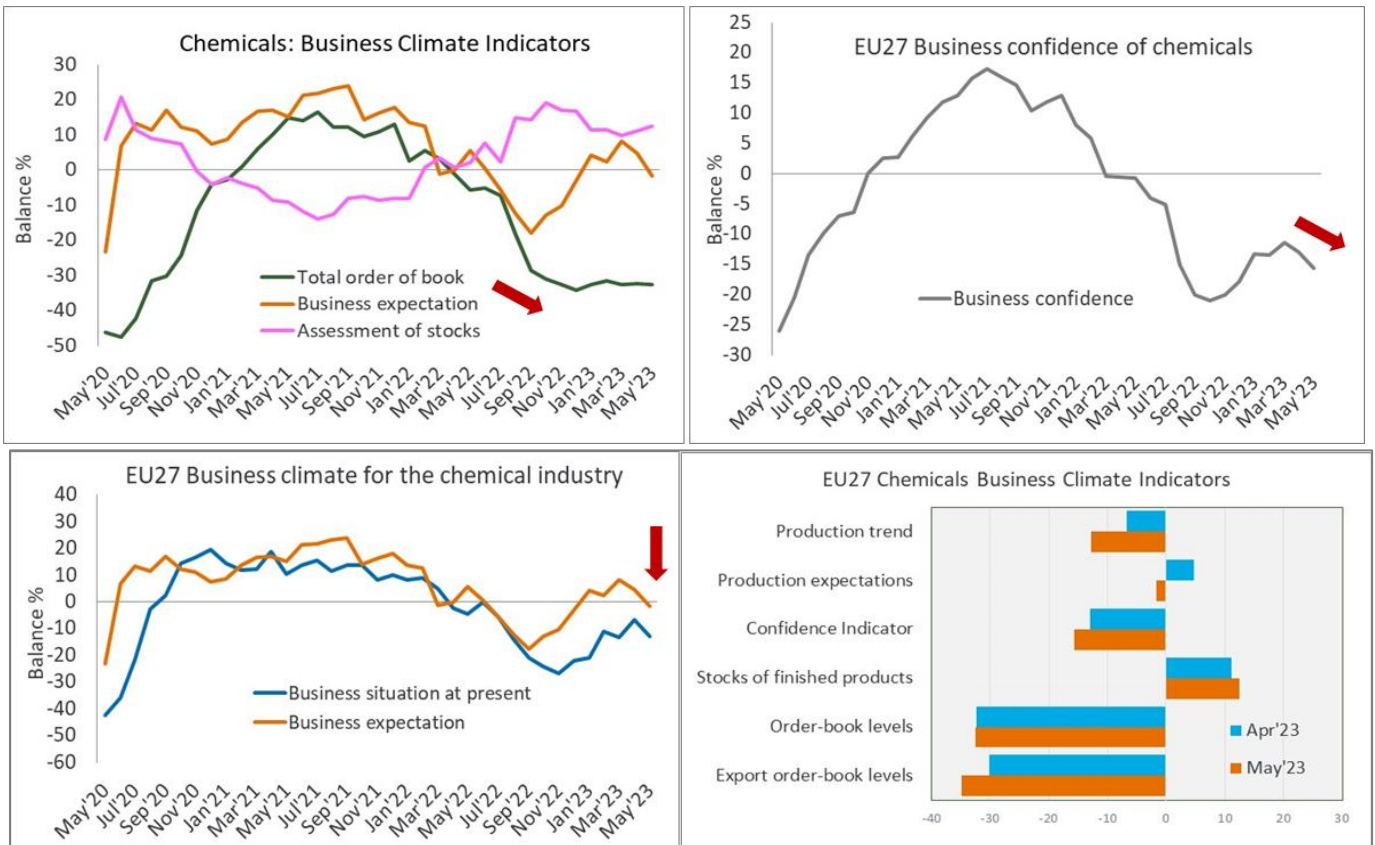
✓ **EU27 gas prices lower than in 2022, but still 4.7 times more expensive than in the USA**

Data shows a deep decline in gas prices since August 2022. The natural gas prices amounted in nominal terms in 2023 (Jan-May) to 43.5 (EUR/MWh), 57% below the 2022's level (100.5, EUR/MWh). Nevertheless, gas prices in Europe are still on average 4.7 times higher than the ones paid in the USA. Electricity and gas are still much more expensive than before the crisis and not competitive in a global comparison (source: <https://www.investing.com/commodities>).



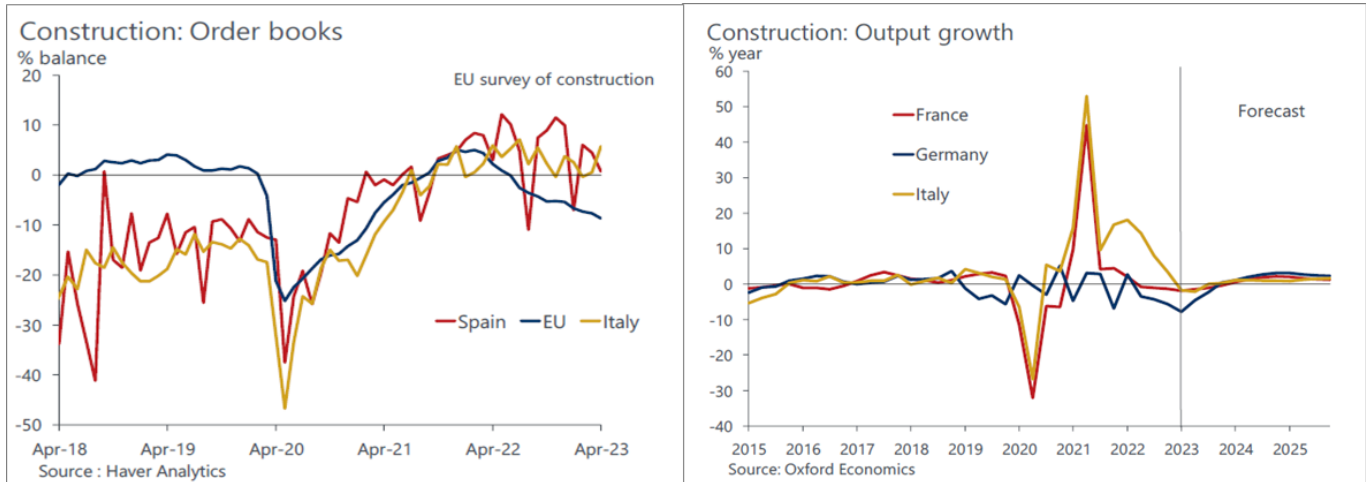
Source: <https://www.investing.com/commodities/ice-dutch-ttf-gas-c1-futures-historical-data> Cefic Analysis (2023)

✓ **EU27 chemicals industry confidence weakened for the second consecutive month in a row**  
Chemicals Industry confidence weakened for the second time in row, as managers' production expectations and their assessments of the current level of overall order books deteriorated and the stocks of finished products were increasingly assessed as too large/above normal. Managers' assessments of past production, which had held up well in recent months, saw a significant deterioration in May 2023. Assessments of export order books also deteriorated. Both production expectations and business situation at present declined in May 2023, and are now in the negative territory.



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

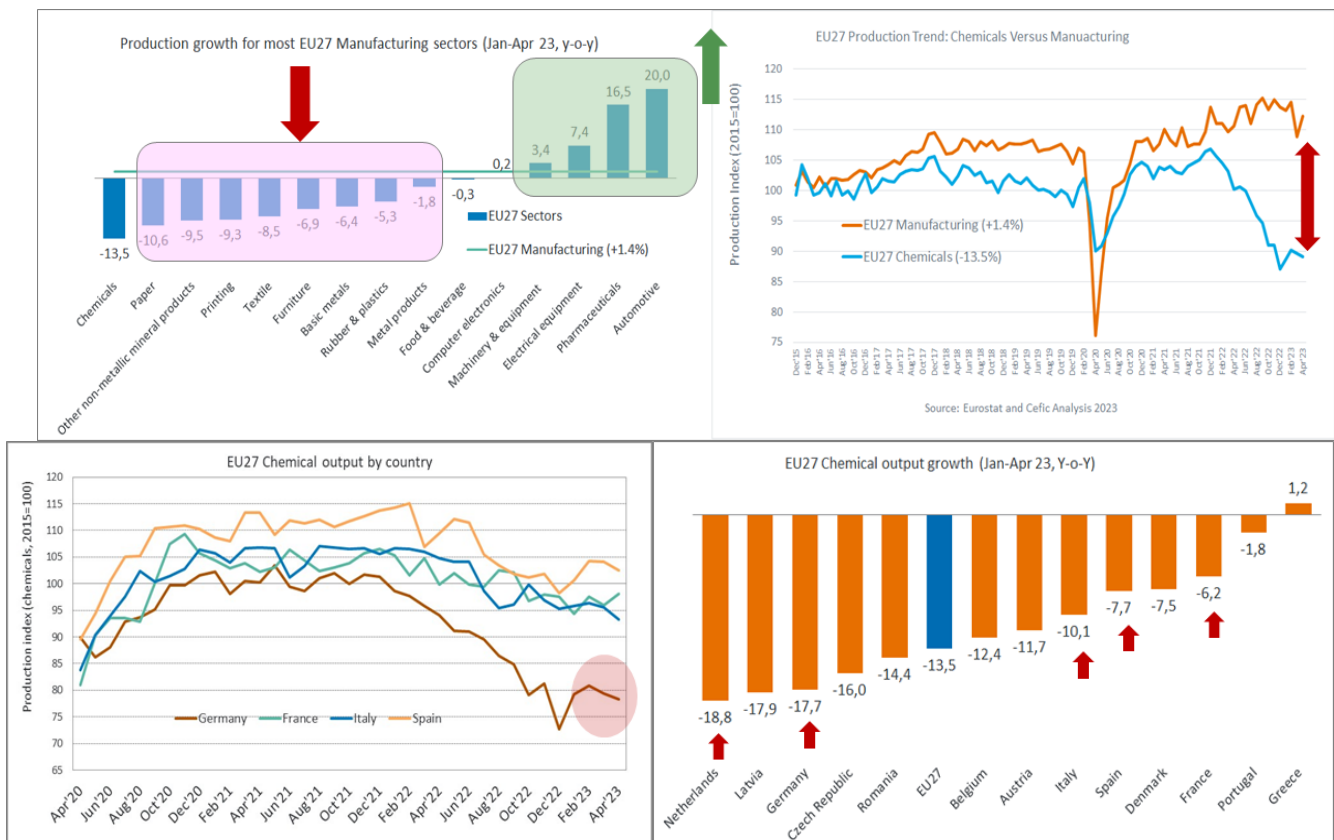
✓ **EU27 construction sector suffering from overall economic weakness**  
In the construction industry, demand for new residential and non-residential buildings is suffering from increasing interest rates, high construction costs and overall economic weakness. The existing backlog of work and somewhat resilient demand for renovation and energy efficiency improvements prevented a strong decline in construction activity so far. Among the main chemical customer industries, the automotive industry showed a dynamic recovery as it is still catching up from the supply chain disruptions in 2021 and 2022. However, while order books are still well-filled, new orders are rapidly declining. Demand for durable consumer goods – such as furniture and electrical appliances – remains subdued due to frontloaded consumption in the Covid lockdowns. This is also impacting negatively the packaging industry. Demand for consumables such as food and beverages is more stable, but high consumer price inflation is impacting demand in these sectors as well.



Source: Oxford Economics Monthly Industry Briefing (May 2023)

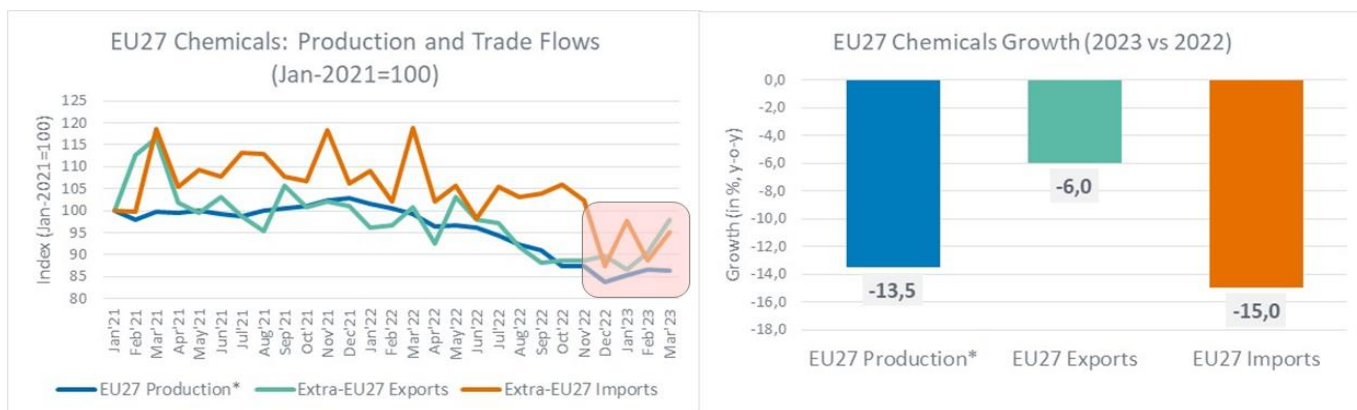
✓ **The European chemical industry is losing competitiveness on global chemical markets**

The European chemical industry started very weak into 2023, when production declined by 13.5% in the first four months of 2023 compared to prior year. Despite a heavy fall of production in Q4 2022, recovery in the first four months was only modest. Chemical customers faced weak demand from their end consumers and reduced their inventories further. Domestic and export demand remained therefore very weak. The comparison between the growth of the overall European manufacturing production (+1.4%) and the decline of the European chemical production (-13.5%) shows a strong gap. However, this decoupling effect does not reflect substitution of domestic chemical production by imports from outside Europe. On the contrary: European chemical imports were declining in volume terms.



Source: Eurostat and Cefic Analysis (2023)

The European chemical industry is losing competitiveness on global chemical markets due to high regional energy and feedstock costs. In 2022, exports were declining faster than imports (in volume terms), clearly demonstrating the increasing pressure on Europe amid intense competition on global chemical markets in times of weak global demand and low capacity utilization.



Source: Eurostat and Cefic Analysis (2023)