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EU27 Chemical Production Up for First Time in Six Quarters but Overall Production Level Remains Low

✓ Summary

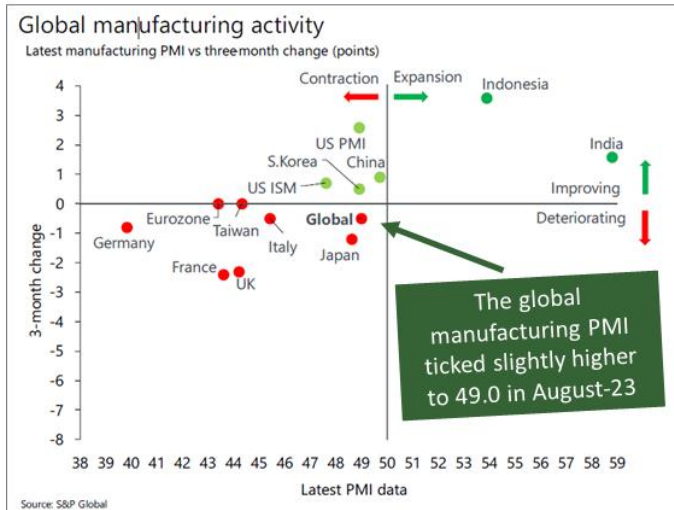
- *Since the rebound in 2021, the global industry production has only shown weak growth. Stress factors which continue to affect European business include external supply and demand developments, energy costs, high interest rates and inflation. With policy perspectives pointing in a direction of increasing EU transformation costs, dependencies on narrow technology choices with patchy subsidies, the European chemical industry is facing the third largest significant decline in output among EU27 energy-intensive industries.*
- *The latest economic survey clearly shows an improvement in the confidence in the EU27 chemical industry. In October 2023, chemicals production expectations improved for the third month in a row. For the first time in six quarters, EU27 chemical production saw a slight increase of 0.5% in the third quarter of 2023 versus the second quarter of the same year. The current production level (Q3-2023) is 10% below 2019, which was already a recession year for the EU27 chemical industry.*

✓ Signs of life in the US and Asia-Pacific

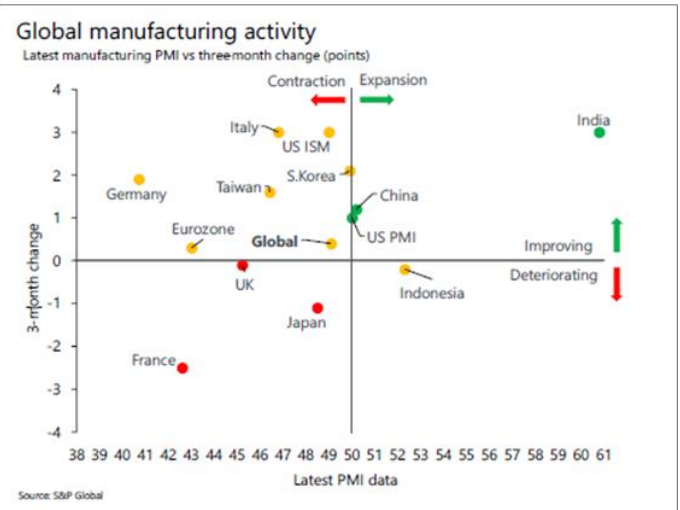
The global industrial production grew by 0.5% in August, bringing output just above average production levels since January 2022. The deterioration in Europe has been offset by recovery in Asia-Pacific. The global manufacturing PMI (Purchasing Managers' Index) ticked slightly higher in September, up to 49.1, which is 0.5 points higher than the July low but below most of H1 2023. US industrial output grew by 0.3% in September. The gradual recovery from the drop in US output in Q4 2022 has, exactly one year later, led to output now surpassing the post-pandemic peak of September 2022. The latest industrial growth figures in the Asia-Pacific region are encouraging. South Korea posted solid growth of 1.8% in Sep-23 compared to Aug-23. South Korea's manufacturing PMI has almost recovered to expansionary territory. India continued its recent run of solid growth. Chinese production grew by 0.4% in Sep-23 compared to Aug-23, and +4.5% above September's level in 2022. Recent data in China are showing ramping up electricity and oil demand, typically a sign of increasing industrial activity (source: Oxford Economics Monthly Industry Briefing/Global Industry-Oct. 2023).

¹ Unless specified, chemical industry excludes pharmaceuticals.

Results (Sep-23)



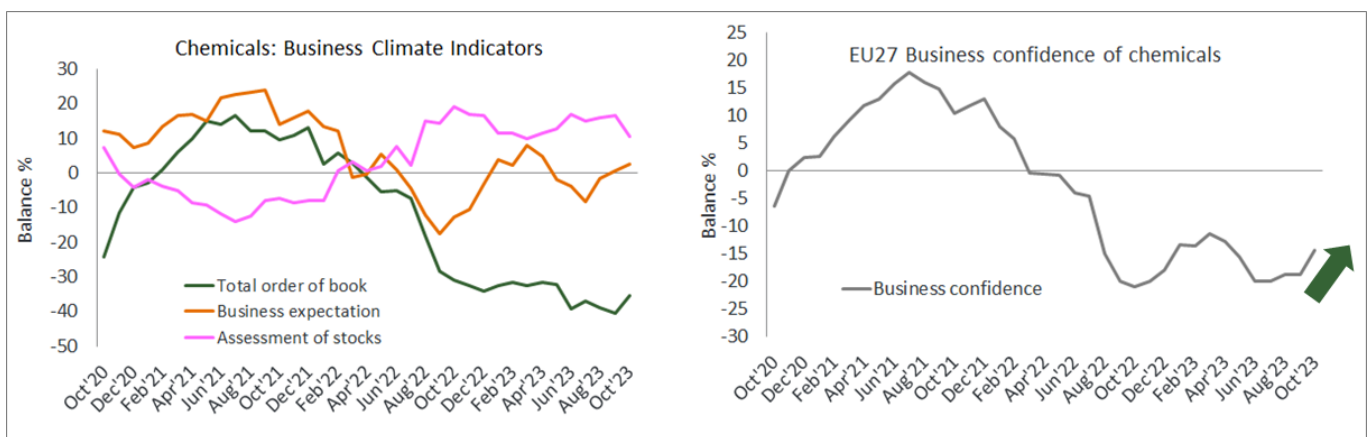
Results (Oct-23)



Source: Oxford Economics Monthly Industry Briefing (Oct 2023)

✓ EU27 chemicals confidence improved in Oct-2023

The latest economic survey shows an improvement in the confidence in the EU27 chemical industry. In October 2023, chemicals production expectations improved for the third month in a row. It continues to progress and is now in the positive territory for the second consecutive month. The assessments of the stocks of finished products decreased significantly. Managers' opinion on the current level of overall order books improved sharply. However, the economic and political environment is still uncertain. It is therefore too early to confirm whether this positive trend will last over time. The chemicals confidence indicator is still at a low level and no sign of strong recovery is observed yet (source: EU27 business and consumer survey, Oct 2023).



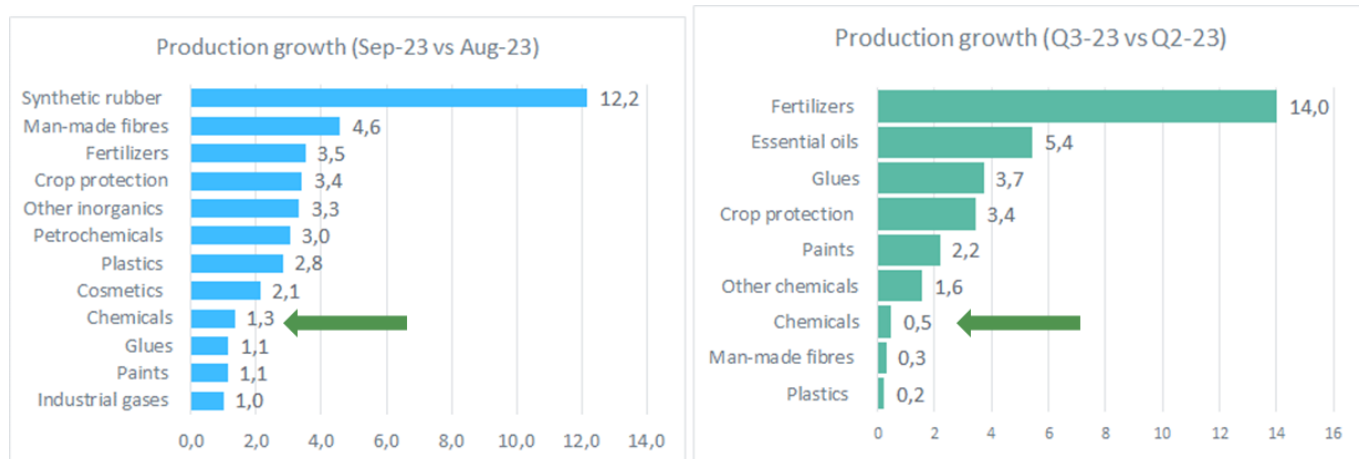
Source: EU27 commission business and consumer survey and cefic analysis (2023)

Turning to the different branches of the EU27 economy, data on the EU27 ESI (Economic Sentiment Indicators) shows that in October 2023, confidence in the EU27 industry, construction and among consumers remained as a whole unchanged. The broadly stable reading of the ESI was the net result of lower confidence in retail trade and higher confidence in services.

The lack of demand in the EU27 industry as a whole is still the main problem of many companies in Europe. According to the latest quarterly survey results, the share of industry managers indicating insufficient demand as a factor limiting their production gained further prominence in October, increasing for the sixth quarter in a row. Meanwhile, the percentage of managers pointing to shortages of material and/or equipment as a factor limiting production decreased further from the record-high level of early 2022. Companies in most sectors are still lacking orders and facing more pressure on their costs (source: EU27 business and consumer survey, Oct 2023).

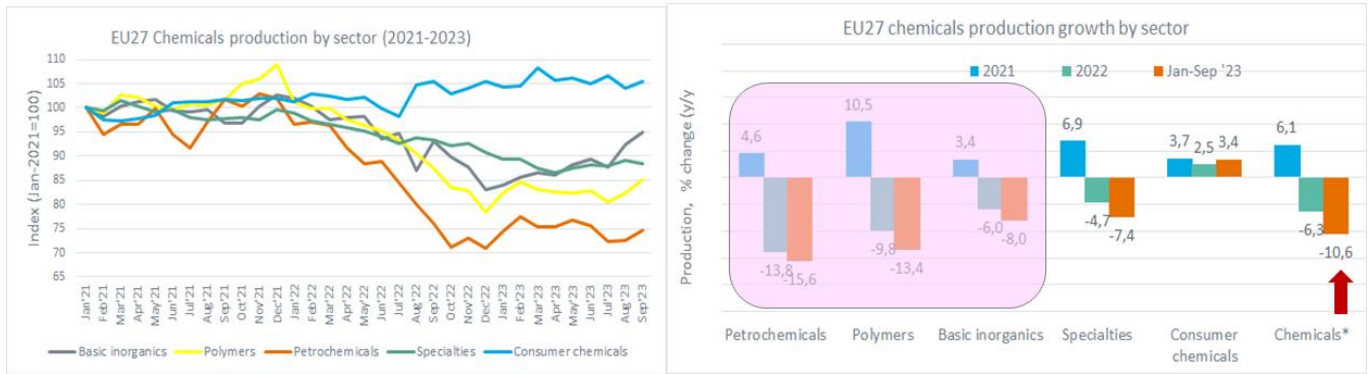
✓ **EU27 chemicals production: Q3-2023 was 0.5% higher than Q2-2023**

For the first time in six quarters, EU27 chemical production saw a slight increase of 0.5% in Q3-2023 compared to Q2-2023, while production was 6.6% lower compared to the previous year. Data of September 2023 contributed significantly to this positive change where chemicals output grew in September 2023 by 1.3% compared to August 2023. Looking at specific sectors of the EU27 chemicals business, fertilisers, essential oils, glues, and paints reported a strong output growth of more than 2.0% in Q3-2023 compared to the previous quarter of the same year. A modest growth was recorded for other chemicals (1.6%). Finally man-made fibres and plastics registered a weak growth of less than the average (0.5%)



Source: Eurostat and Cefic Analysis (2023)

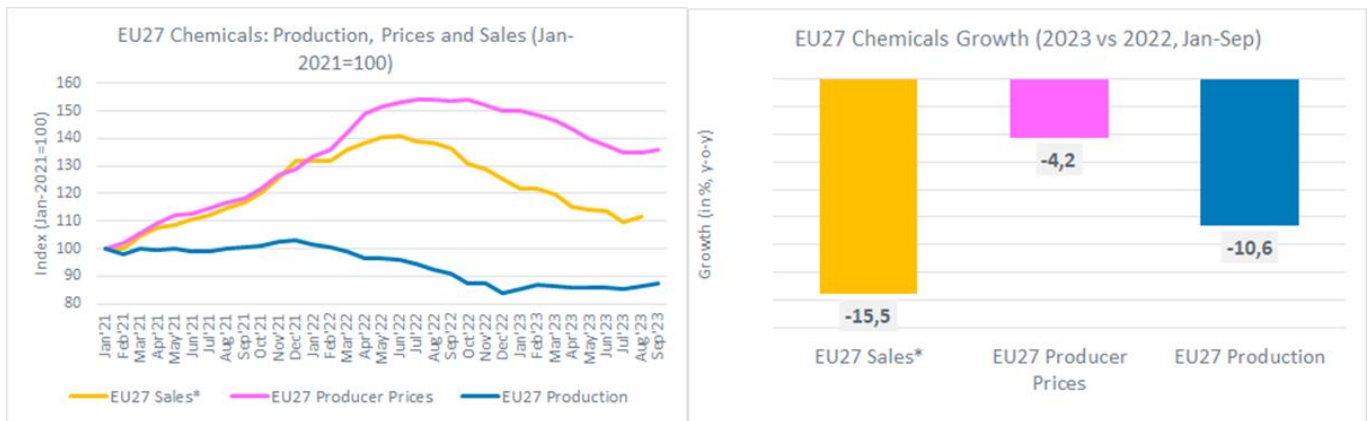
Focusing on the big chemicals sectors, basic chemicals sectors continued to see a double-digit decline. 2023 output of petrochemicals was 15.6% lower compared to the same period last year. A marked downturn was recorded for polymers (-13.4%). The drop in the production of basic inorganics (-8.0%) and specialty chemicals were comparatively moderate. With 3.4% growth, consumers chemicals (soaps, detergents and cosmetics) are still doing well compared to the other chemicals sub-sectors. All in all, chemicals production declined by 10.6% for the first three quarters of 2023 compared to the same period of 2022.



Source: Eurostat and Cefic Analysis (2023)

✓ **EU27 chemical sales reported the highest monthly growth since 15 months (+1.8%)**

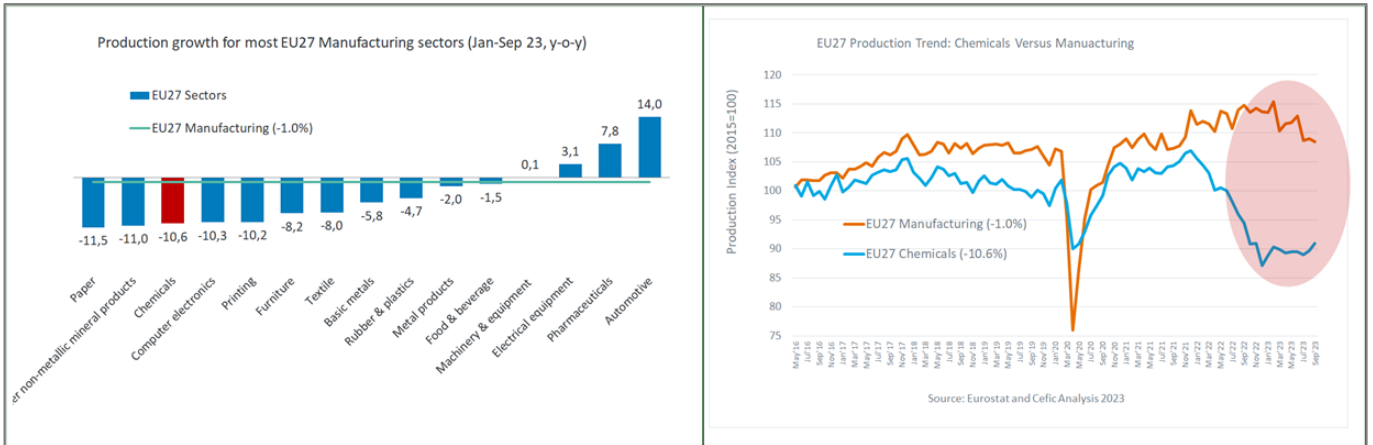
In 2022 chemical sales in Europe reached an all-time high. Due to high energy prices and increasing demand for chemicals (due to supply chain disruptions), chemical prices and sales increased strongly since the beginning of 2021. This trend was amplified in the first half of 2022 due to the energy crisis and the war in Ukraine. Since then, prices and sales went down significantly while production is still flat. At €445 bn, sales in the EU27 chemical industry for the first eight months of 2023 are below the levels recorded during the same period last year (-15.5%). The global economic and business environment is not really helping the European chemicals companies better resist to the crisis. EU27 chemicals sales decline in 2023 comes with a persistently difficult revenue situation for companies. However, since August 2023 (latest data available), data show a slight upturn and chemicals sales grew by 1.8% compared to July-2023. For the first time since May 2022, EU27 chemical sales saw a significant increase. It was the highest monthly growth since 15 months. Both prices and output reported a positive change of less than 1% in August 2023 compared to July 2023.



Source: Eurostat and Cefic Analysis (2023)

✓ **EU27 chemical industry reported the third-largest output decline in 2023 (-10.6%)**

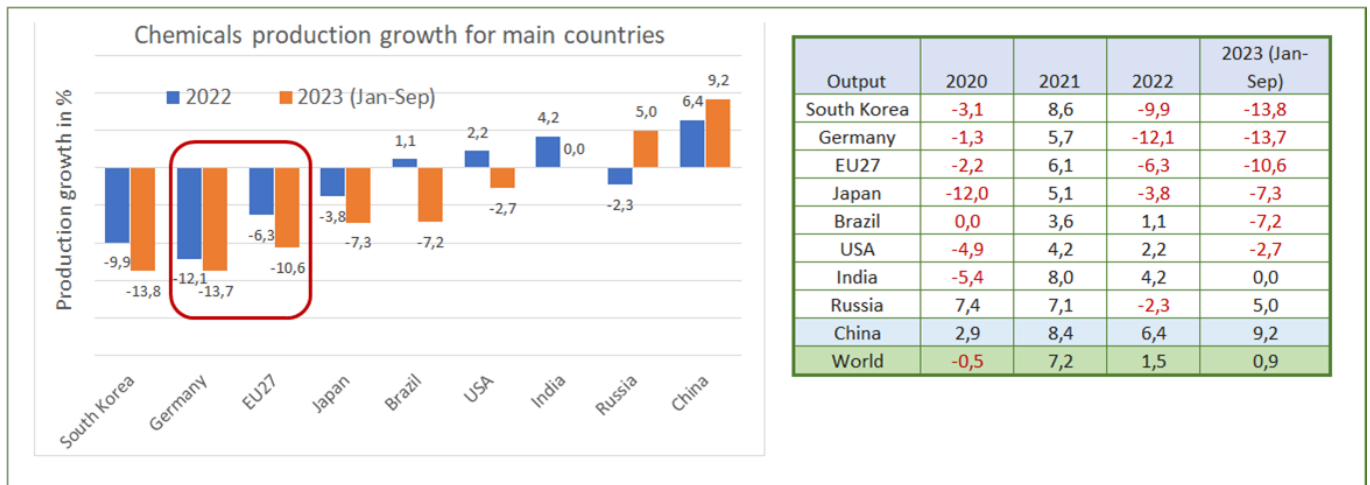
2023 output of EU27 manufacturing was slightly lower in comparison to the same period of the previous year (-1.0%). Sectors such as electrical equipment, pharmaceuticals and automotive have contributed to limit the effects of the energy crisis on the EU27 manufacturing sector as a whole. With 10.6% decline, the EU27 chemical industry reported in 2023 (Jan-Sep) the third-largest drop in production. Capacity utilisation in the EU27 chemical industry declined once more and was at 74.1 percent in Q3-2023. The European chemical industry is still losing competitiveness on global chemical markets due to high regional energy and feedstock costs.



Source: Eurostat and Cefic Analysis (2023)

✓ **China is still reporting the highest chemical production ever (+9.2%)**

The table below shows the latest development for key chemicals producing countries in the world. As highlighted below, China is still reporting the highest chemical production ever. Chemical production in China seems to be improving month by month since June-23. Chemicals output, in China was 9.2% above the previous year's level (Jan-Sep). We are cautious in interpreting the increased chemical production in China as a positive sign. There is a risk that it is the opposite with Chinese companies intending to increase their capacity utilisation by exporting more, which would impact global competitiveness. The US chemical industry benefits from a more robust GDP trend and high competitiveness due to low natural gas costs. The level of chemical production is still below 2022's levels (-2.7%).



Source: Eurostat and Cefic Analysis (2023)

On the EU27 side, the chemical industry is losing competitiveness on global chemical markets due to high regional energy and feedstock costs. Production and trade activity are significantly declining and are below 2022's levels. Using the current output trend until year-end delivers -8.0% for 2023. Adding the -6.3% decline of 2022, the EU27 chemical production contracted by -14%, far more than the +6.1% growth in 2021. The current production level is 8% below 2019, which was already a recession year for the EU27 chemical industry (comparing Sep-2023 to Sep-2019). Global chemical production will grow by less than 1% in 2023. 2024 growth is expected to be below the structural growth of 3.5%.