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A glimmer of hope from China?

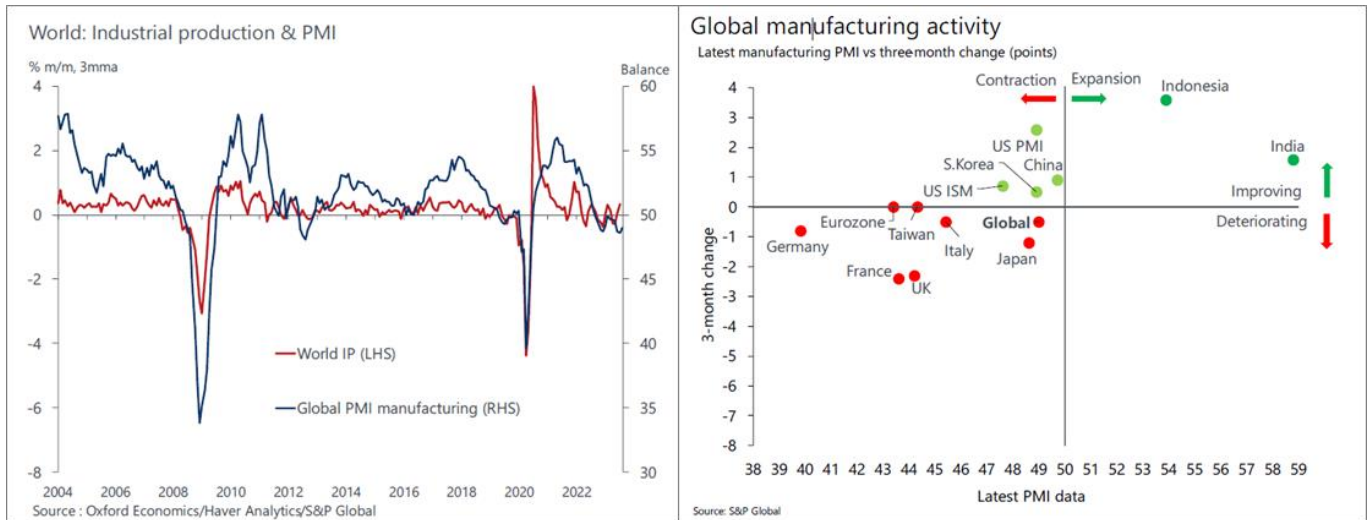
✓ Summary

- *Energy costs continue to affect Europe, with the chemical sector having faced one of the most significant declines in output among energy-intensive industries. These effects emphasise the need for accessible and affordable energy. The significant drop in energy and raw materials prices since the peak in August '22 was expected to provide relief at the beginning of 2023. Hopes for a recovery after the mild winter and with much lower gas and electricity prices have not materialised. Rather, the demand for chemicals is still on the decline.*
- *Despite the 1.2% growth posted in August compared to July 2023, the EU27 chemical production still remains far behind its production rate of the same period in 2022 (-5.9% compared to August 2022). European gas prices have eased significantly but remain 60% above their average 2015-19 level.*
- *Strong partnerships with key players like China, and the US are vital for the resilience of the EU chemical industry. China's recent dip in demand for chemical products, influenced in part by structural factors and a flat construction cycle, is a source of concern. Reducing energy imports from Russia requires diversification and looking for alternative sources of energy and feedstock. The EU chemical industry has been an export-oriented industry with 30% of all production slated for export. Reduced trade and weak global demand from key downstream sectors, coupled with persistently high energy and regulatory costs, will continue to weigh on the sectors prospects into 2024.*

✓ In Aug-23, the global manufacturing Purchasing Managers' Index (PMI) rose slightly

The global industry stagnated in July, maintaining output levels varying between the multi-year lows of April 2023 and the average monthly levels of 2022. The global manufacturing PMI ticked slightly higher to 49.0 in August. The Eurozone industrial output (excluding Ireland) declined in July, the second consecutive monthly contraction and the fifth in 2023 where output fell. The centre of eurozone weakness continues to be Germany. In the USA, the September manufacturing PMI was 48.9, improving from August but still in negative territory (source: Oxford Economics Monthly Industry Briefing/Global Industry-Sep. 2023).

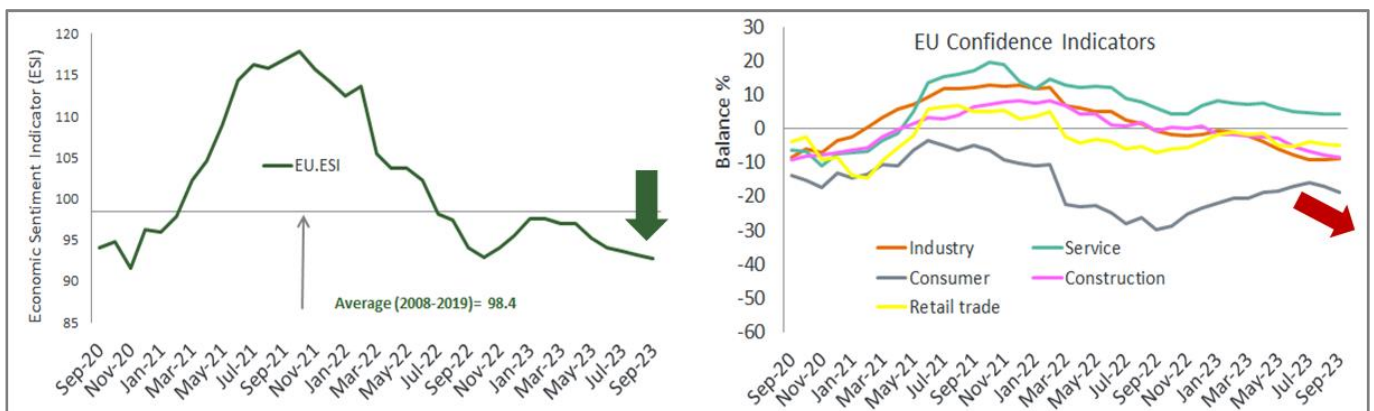
¹ Unless specified, chemical industry excludes pharmaceuticals.



Source: Oxford Economics Monthly Industry Briefing (Sep 2023)

✓ **In Aug-23, industrial output in China was 4.5% higher than Aug-22**
 After several months of consistently disappointing results, industrial output in China exceeded expectations in August, posting 0.5% growth compared to July 2023, and +4.5% above August's level in 2022. The increased activity, combined with rising global metals and energy prices, seems to be suggesting that government stimulus measures are having their intended effect. This, combined with fading destocking pressures, is bringing about the cyclical upswing in industrial production. The manufacturing PMIs for China rose in August, with the official figure coming in at 49.7 (source: Oxford Economics Monthly Industry Briefing/Global Industry-Sep. 2023).

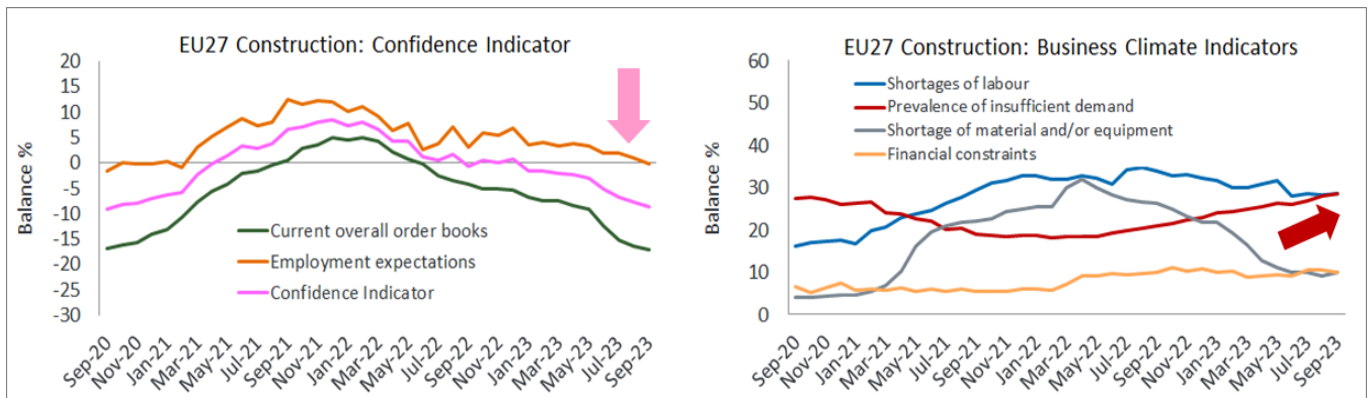
✓ **In Sep-23, consumer confidence declined markedly for the second month in a row**
 In September 2023, the Economic Sentiment Indicator (ESI) dipped slightly again in both the EU and the euro zone. The mild decrease of the EU27 ESI in September was mostly driven by markedly lower consumer confidence. While confidence among builders and, to a lesser extent, retailers also slipped, it remained broadly stable in services and industry. Consumer confidence declined markedly for the second month in a row, as survey respondents became more pessimistic about their household's past and future financial situation and the expected general economic situation in their country. Consumers also signalled decreased intentions to make major purchases (source: EU27 business and consumer survey results for Sep. 2023)



Source: EU27 Commission business and consumer survey and Cefic Analysis (2023)

✓ **In Sep-23, insufficient EU27 demand in construction reached its highest level since July 2020.**

The EU27 confidence in construction continued to decline, due to a deterioration of both its components (i.e. assessments of the level of order books and employment expectations). The percentage of managers indicating shortages of labour as a constraining factor in construction activity remained almost equally high compared to long-term average. The prevalence of insufficient demand gained further prominence in builders' assessments, reaching its highest level since July 2020. Shortage of material and/or equipment as a limiting factor picked up mildly but remained at a level well below that observed over the last two years. While the share of builders reporting financial constraints decreased, it remained above long-term average (source: EU27 business and consumer survey results for Sep. 2023).

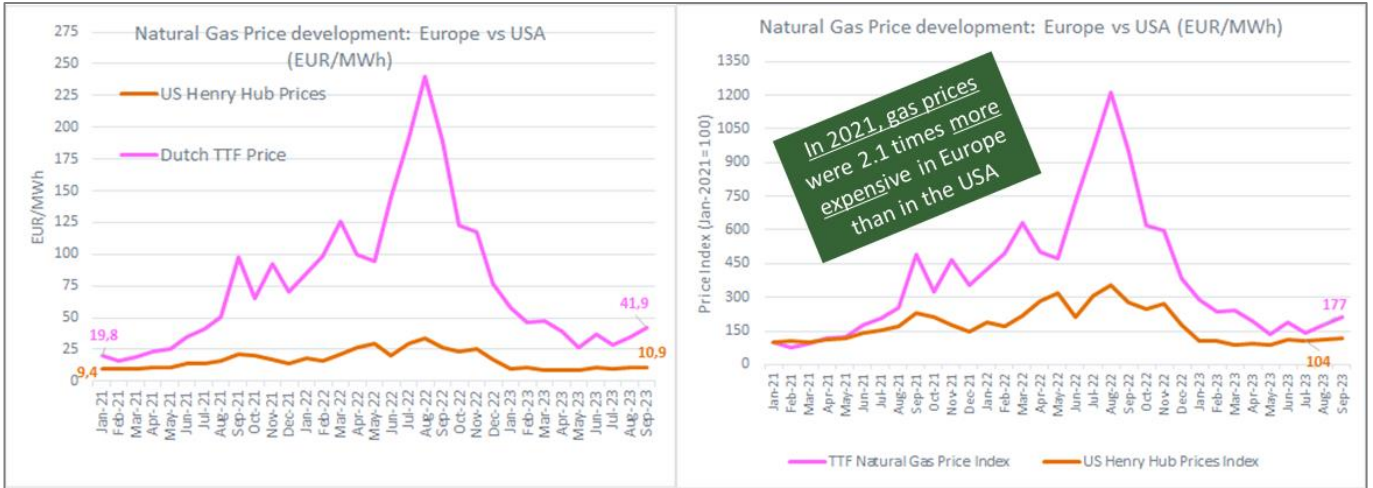


Source: EU27 Commission business and consumer survey and Cefic Analysis (2023)

According to the latest ifo report, more and more companies in Germany are reporting cancelled projects in residential construction. Many projects are no longer economically viable due to high interest rates and increased construction costs. Complaints of a lack of orders in the industry are also increasing; 46.6 percent of companies are currently affected, up from 44.2 percent in August. The ifo Business Climate for residential construction is now at its lowest level since the survey began in 1991 (source: ifo press release, Munich, Oct 16, 2023).

✓ **In Sep-23, European gas prices were 77% lower than in 2022 and 57% below 2021's levels**

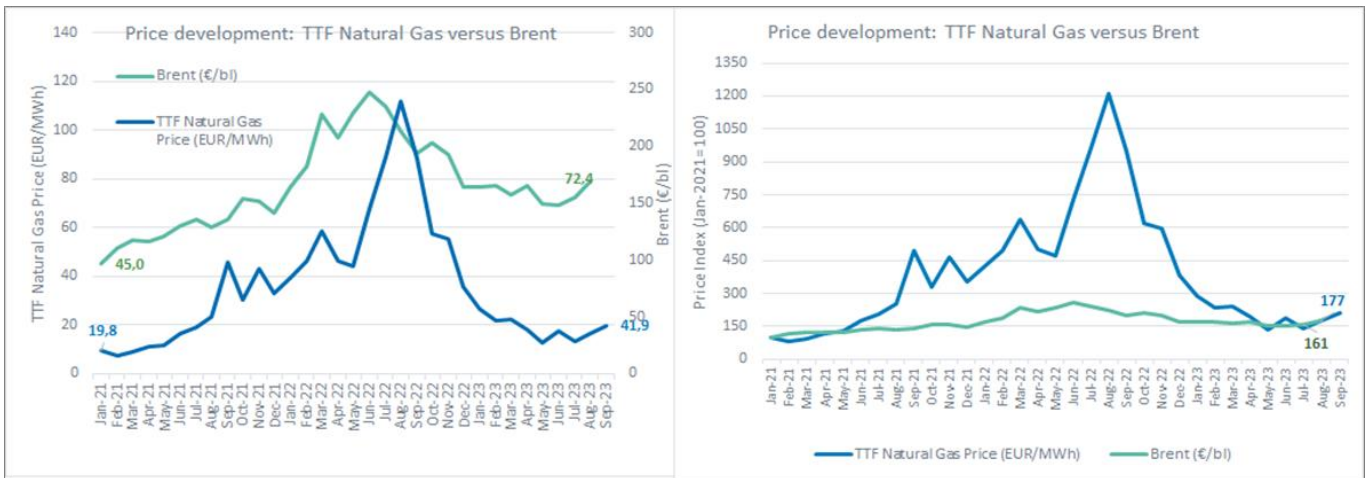
In September 2023, the natural gas prices in Europe amounted in nominal terms to 41.9 (EUR/MWh), 85% below 2022's level. Gas prices were also 57% below 2021's levels. The gas prices in Europe are still on 3.8 times higher than the ones paid in the USA. European gas prices have eased significantly but remain 60% above their average 2015-19 levels. The energy price shock of March 2022 continued to put European producers under significant pressure and falling demand in key end-use sectors is also impacting the chemicals producers' ability to pass on cost increases.



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

✓ **In Aug-23, oil prices accelerated significantly in euro**

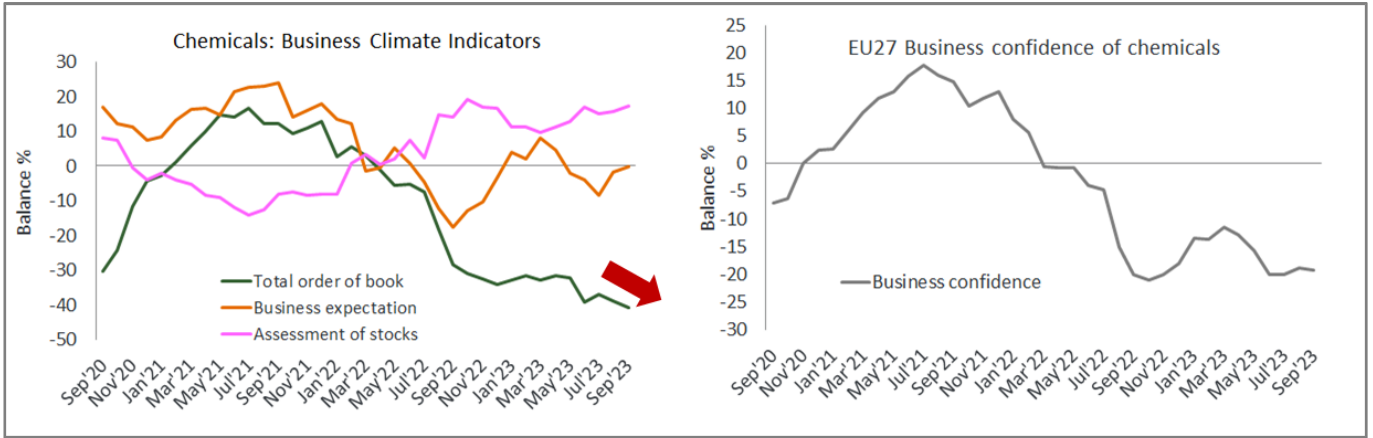
According to the INSEE Monthly Report (August 2023), oil prices in euros accelerated significantly. (+8.9% month-on-month). Conversely, the prices in euros of imported raw materials (excluding energy) fell slightly again, due to both food commodity prices and industrial raw material prices. Oil prices continued to rise sharply. The price of North Sea crude oil (Brent) in dollars increased sharply again (+7.4%), averaging \$86.1 per barrel. In euros, the price per barrel accelerated more significantly in August 2023 due to the decline of the euro against the dollar over the period.



Source: INSEE Monthly Report (August 2023)

✓ **In Sep-23, EU27 chemicals overall order books continued to worsen**

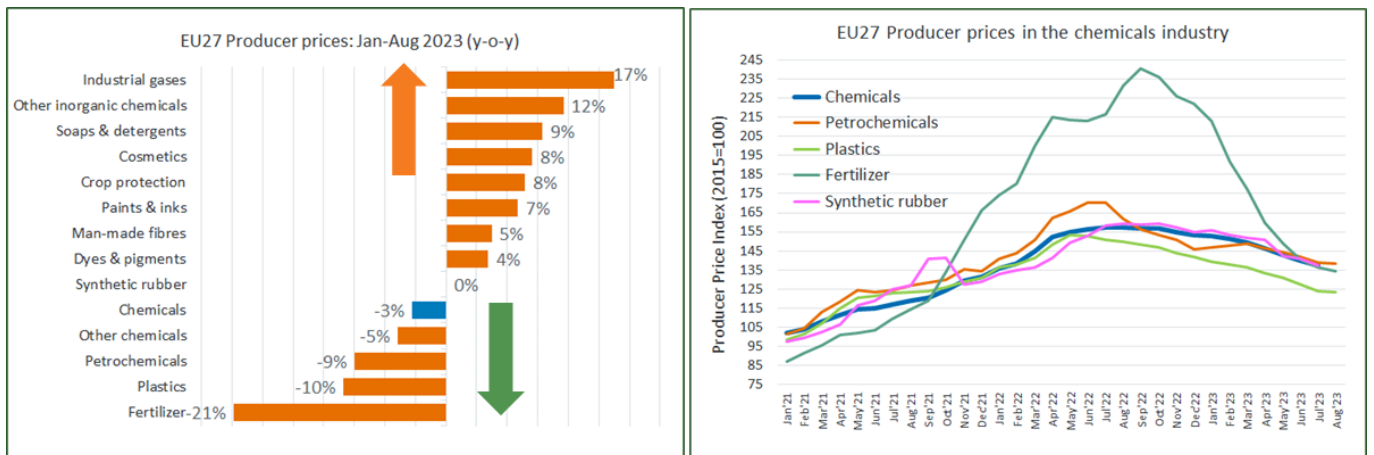
The assessment of export order books dropped slightly, and views on developments in past production were less negative than in the previous month (source: EU27 business and consumer survey, Sep 2023).



Source: EU27 Commission business and consumer survey and Cefic Analysis (2023)

✓ **In Aug-23, EU27 chemical selling prices were 13% lower than August 2022**

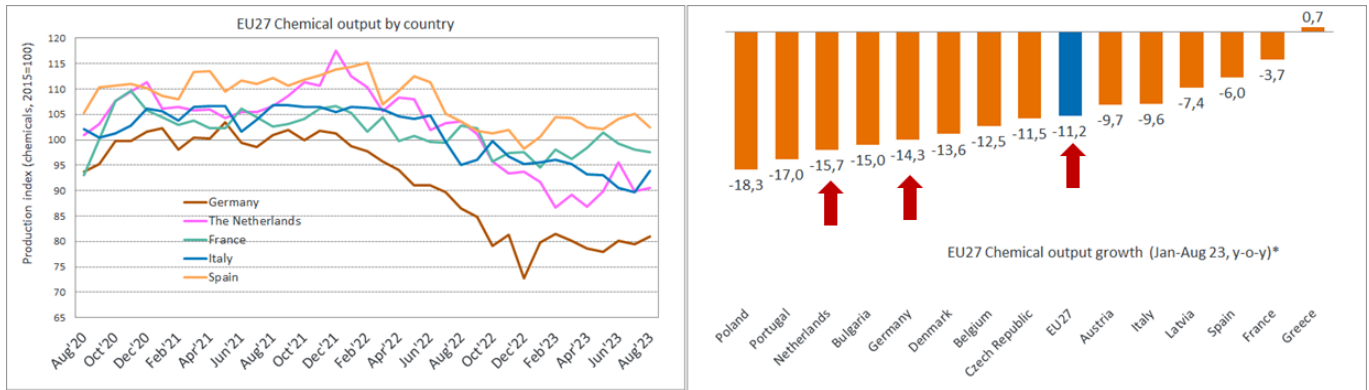
Sectors such as fertilisers, plastics and petrochemicals continued to see selling prices drop to the double-digit range. In the first eight months of 2023, the EU27 chemical selling prices were down by 3% compared to the same period in 2022. According to the results of the EU27 business and consumer survey (Sep. 2023), the EU27 selling price in services and retail trade remained elevated, despite expectations that they would decline further. In industry and construction, selling price expectations stabilised at around their long-term average. By contrast, consumers’ price expectations for the next twelve months further increased in September. Consumers’ perceptions of price developments over the past twelve months remained stable at a very high level.



Source: Eurostat and Cefic Analysis (2023)

✓ **In Aug-23, EU27 chemical production was 1.2% higher than in July 2023**

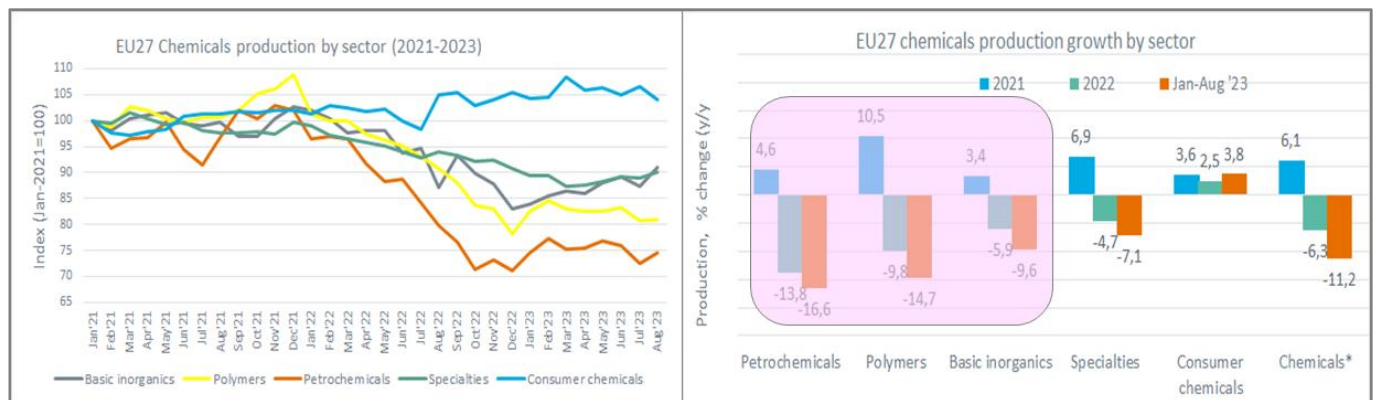
EU27 chemicals production exceeded expectations in August, posting +1.2% growth compared to July 2023, but still 5.9% below August’s level the year before. EU27 chemicals production in the first eight months of 2023 was 11.2% lower compared to the same period of 2022. The results of these first eight months of the year continued to be disappointing for most countries, as the spillover effect of the 2022 energy crisis is severely impacting most business sectors in Europe in 2023. The country analysis shows that Poland, Netherlands and Germany were amongst the EU27 countries most impacted by the energy crisis, and they are now recording a production decline of more than 14%. With an 18% drop, Poland registered the highest decline amongst the largest economies in Europe.



Source: Eurostat and Cefic Analysis (2023)

✓ **EU27 basic chemicals sectors continued to see a double-digit decline**

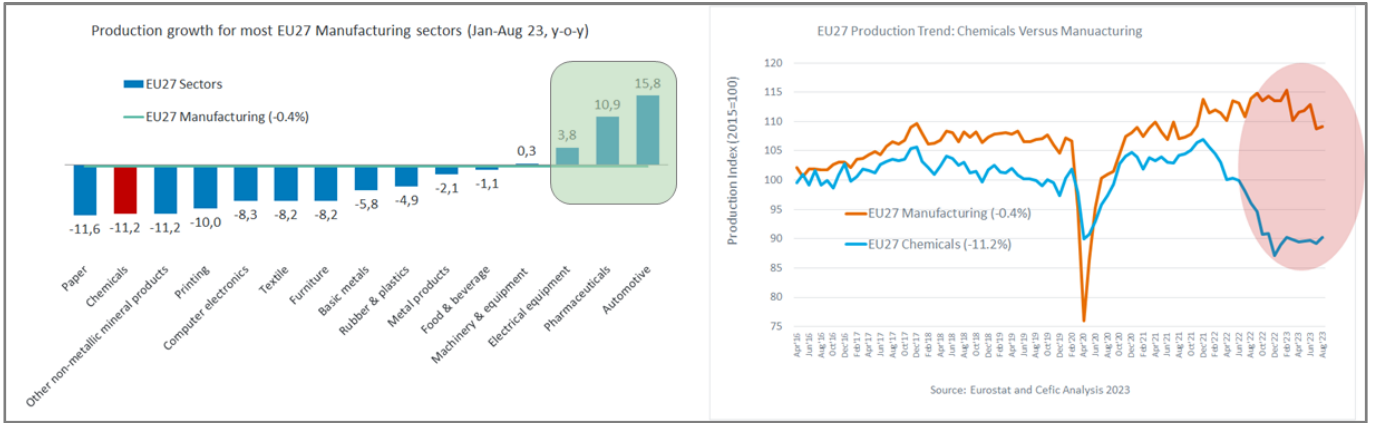
Looking at specific sectors of the chemicals business, basic chemicals sectors continued to see a double-digit decline. 2023 output of petrochemicals was 16.6% lower in comparison to the same period of the previous year. A marked downturn was recorded for polymers (-14.7%) and basic inorganics (-9.6%) as well. The drop in the production of specialty chemicals was comparatively moderate (-7.1%). Last but not least, consumers chemicals (for instance, soaps, detergents and cosmetics) are still doing well compared to the other chemicals sub-sectors.



Source: Eurostat and Cefic Analysis (2023)

✓ **EU27 chemicals reported the second-largest output decline in 2023**

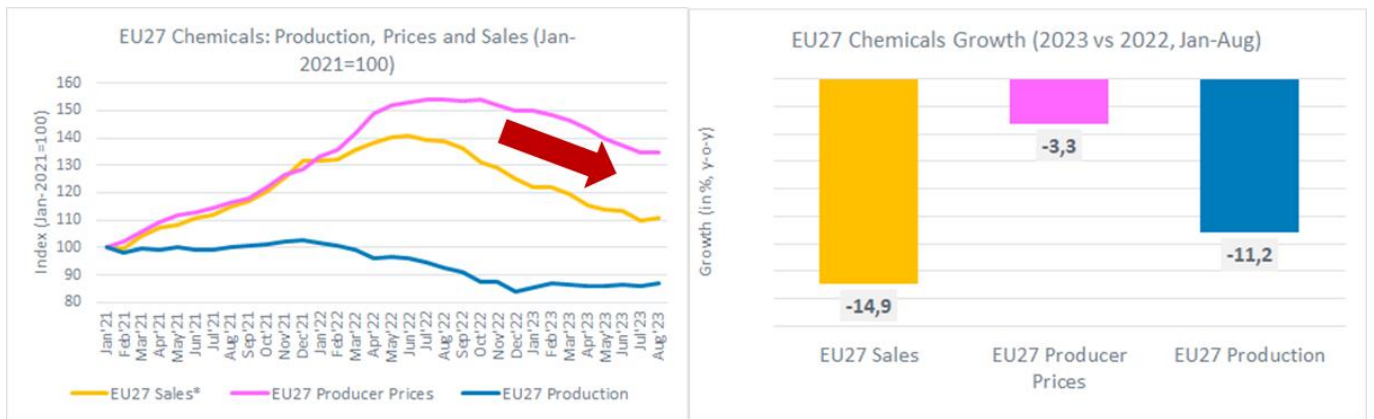
The EU27 chemical industry continued its downward trend in July 2023. Both domestic and export demand remained very weak in both volume and value terms. In the first eight months of 2023 chemicals production declined sharply in comparison to the previous year (-11.2%). Sectors such as electrical equipment, pharmaceuticals and automotive have contributed to limit the effects of the energy crisis on the EU27 manufacturing sector as a whole (-0.4%). With 74%, the capacity utilisation level is approaching similar levels as seen in the first Covid lockdown in 2020. The European chemical industry is losing competitiveness on global markets due to high regional energy and feedstock costs.



Source: Eurostat and Cefic Analysis (2023)

✓ **Prices and sales have declined sharply since April 2022**

The EU27 chemicals sales decline in 2023 (-14.9%) comes with a persistently difficult revenue situation for companies. At €391 bn, sales in the EU27 chemical industry for the first seven months of 2023 are below the levels recorded during the same period last year. The global economic and business environment is not helping the European chemicals companies better resist the crisis. The elevated interest rates, tighter lending conditions and persistent inflationary pressures continued to weigh on goods producing industries that chemical firms sell to.



Source: Eurostat and Cefic Analysis (2023)