



Cefic Economic Outlook Press Release (July-2018)



Marco Mensink, director general, European chemical industry council (Cefic)



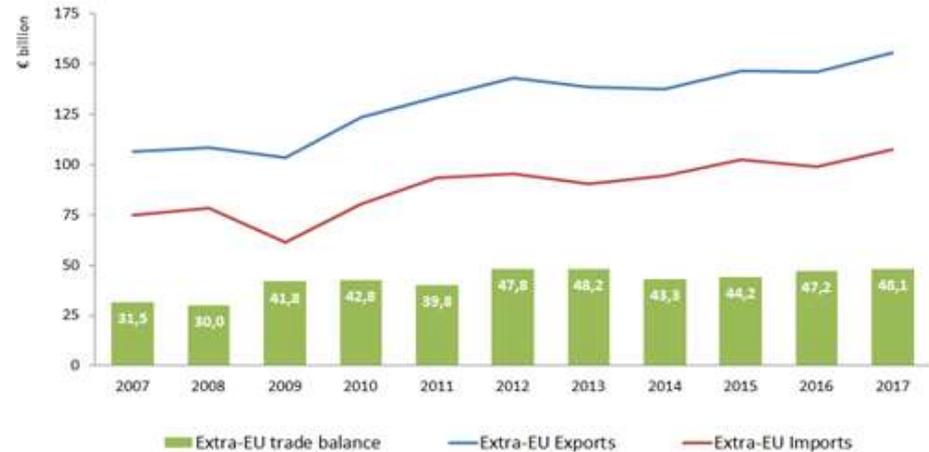
1. At the Heart of European Industry

1-1 At the Heart of European Industry-1 Providing the essentials



- **96%** of European chemical companies are **SMEs**
- Network of **more** than **5,000** chemical industry **experts**
- **€ 507** billion in **sales** in 2016
- EU chemical **trade surplus** of **€ 48,1** billion in 2017
- The third largest investor in EU manufacturing (**€21,7 bn**)

Extra-EU Chemicals Trade Flows (€ billion)



Europe -
a world
player:
world
chemicals
sales by region

Chemicals:
the leading EU
manufacturing
sector in terms
of value-added
per employee

“The chemical
industry is placed
at the beginning
of the product
supply chain”

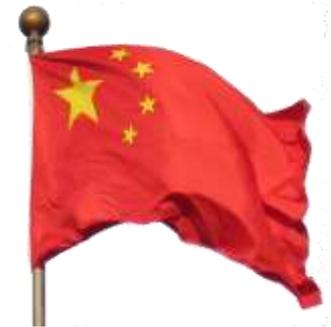
(Hans Bender,
VP External Relations,
Procter & Gamble)

1-2. Asia chemicals production outpaces other regions



World chemical sales: geographic breakdown

World chemicals sales (€ 3.360 billion in 2016)

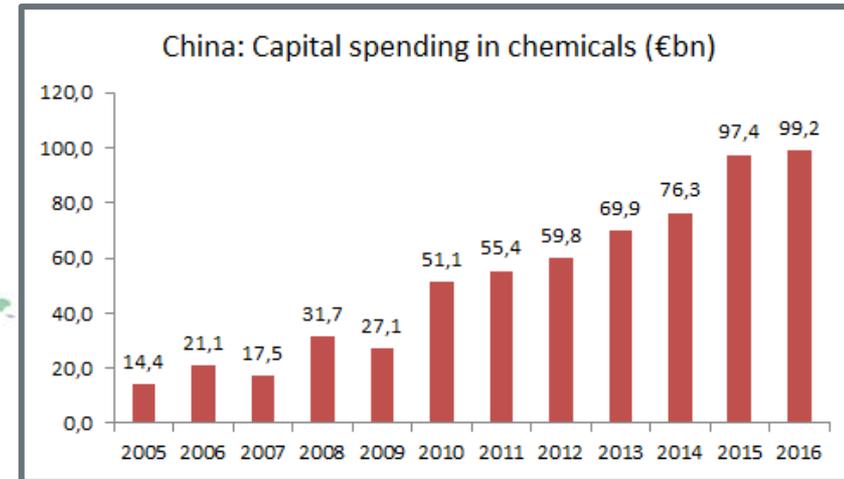


- ❖ With 15.1%, the EU chemical industry ranks second, along with the USA (14.2%), in total sales. When including both the European Union and non-EU countries in Europe, total sales reached €597 billion in 2016, or 17.8% of world chemical sales.
- ❖ Worldwide competition has ratcheted up in the last ten years, however, as China holds the top ranking in sales – a position once firmly held by Europe.

1-3. China dominates world chemicals investment

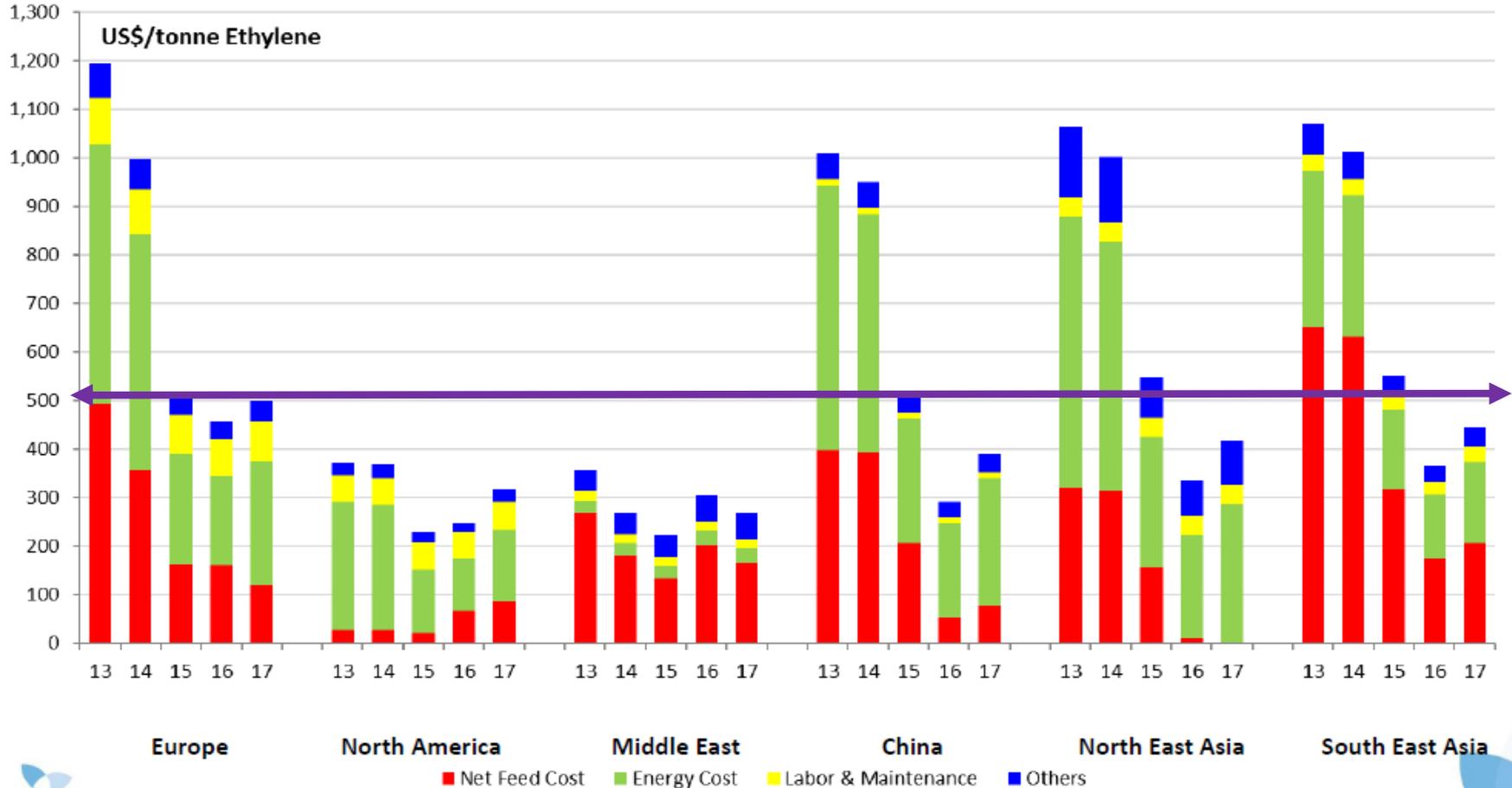


Capital spending by region



- ❖ In 2016, China invested €99.2 bn in the chemical business, accounting for 46% of World chemical investment. This is far above the 25% reported ten years ago.
- ❖ The EU chemical industry subsectors with the highest capital spending values are petrochemicals, inorganic basic chemicals, plastics in primary forms, fertilisers and nitrogen compounds. (Source: EU Commission CCA report, 11 July 2016)

1-4. Comparative Regional Ethylene Cash Cost



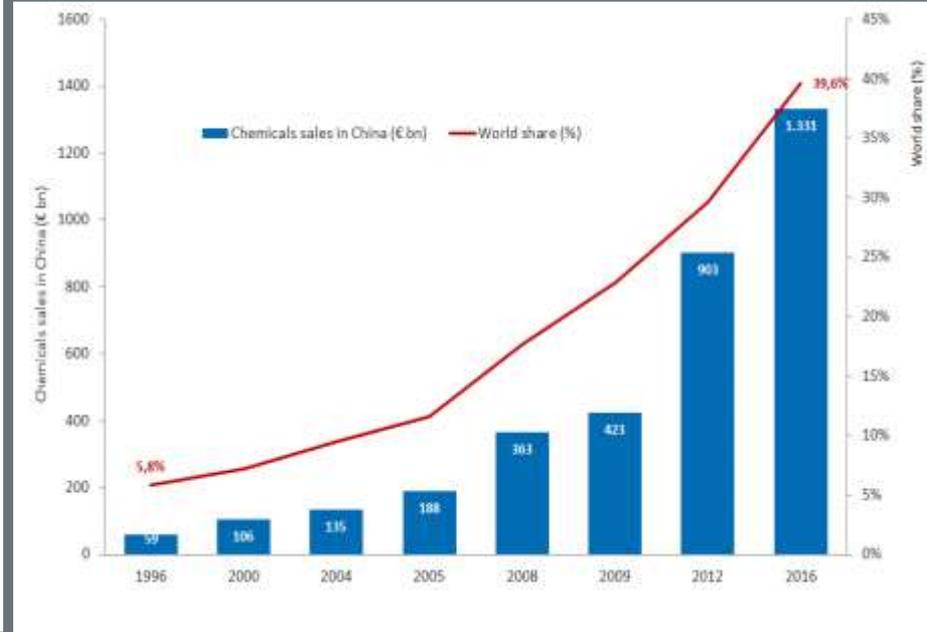
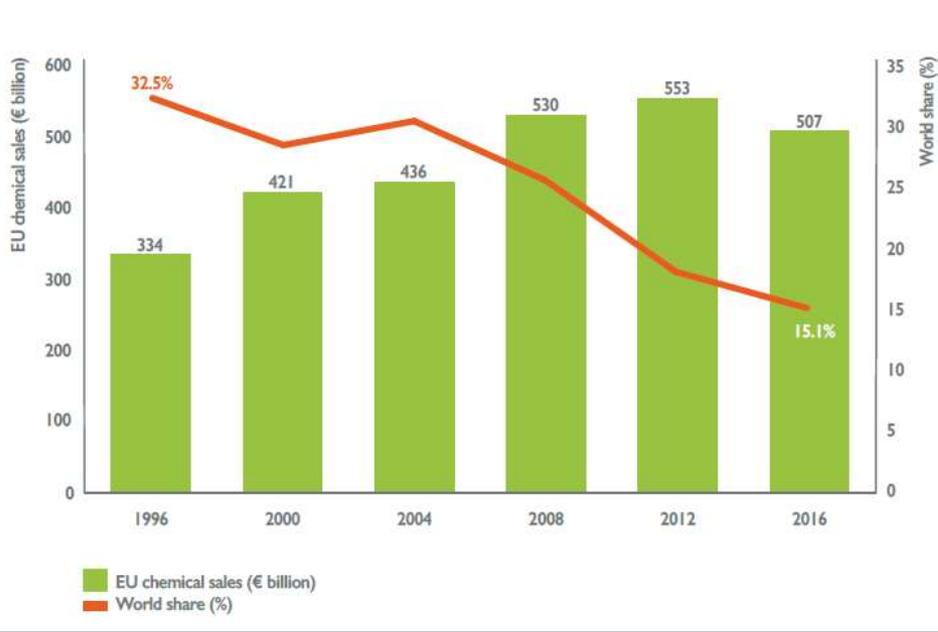
- ❖ Advantageous energy and feedstock prices are a clear enabler of competitiveness. A clear indicator of this situation is the cost of producing ethylene.
- ❖ Although the competitive disadvantage has diminished recently, Europe still has a significant competitive disadvantage compared to US and ME.

1-5. EU sales increase by more than 50% in 20 years, while EU world market share halves



Sales (up, 52%), market share (down, 54%)

Sales (22 times), market share (7 times)

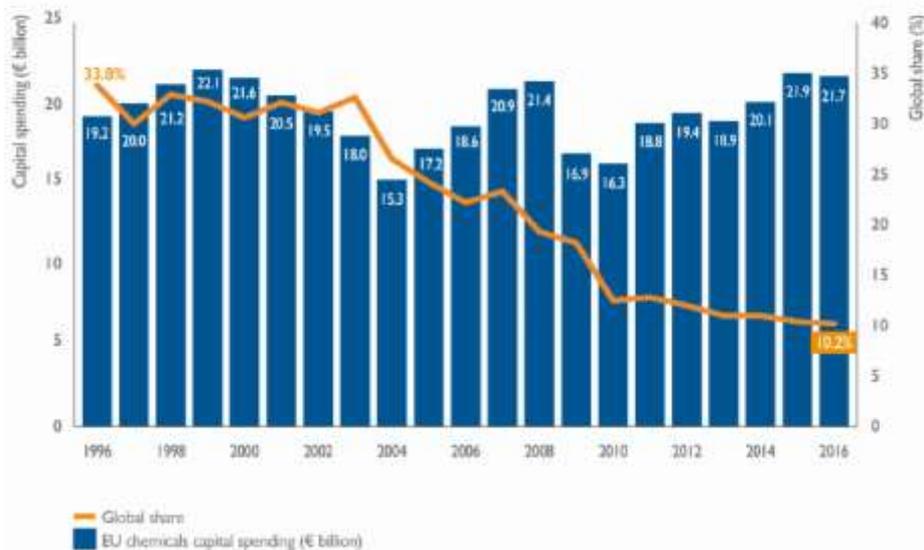


- ❖ This is a “dilution” effect, a trend expected to continue in the future. Data analysis showed strong chemical demand growth in China, and other emerging countries and low growth in Europe and North America, where Europe sells most of its chemicals.
- ❖ Overall growth of chemicals demand and production as well as faster growth in emerging regions is a trend that is likely to continue in the coming years. Growth in post-recession Europe remains low, mainly due to mature markets and an ageing population.

1-6. EU market share of capital and R&D spending declined significantly during 20 years



EU share of global capital spending market



R&D spending market share



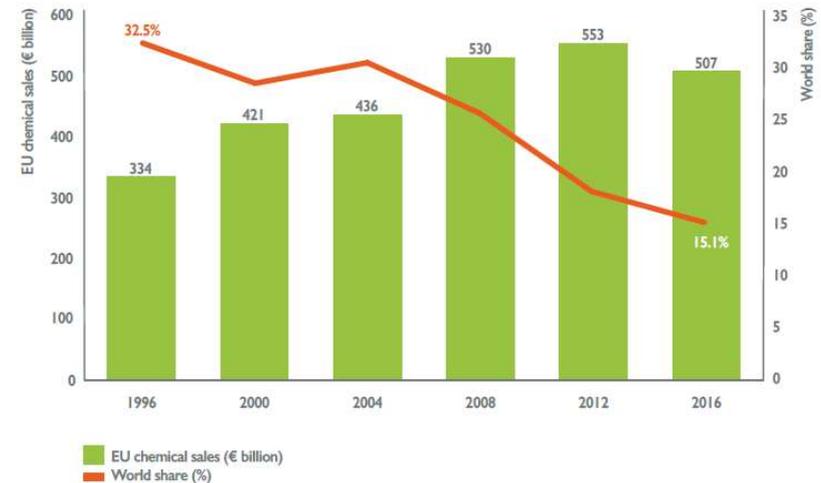
- ❖ Capital spending intensity reached the highest level in eight years
- ❖ EU investment market share has lost more than 2/3 of its value during 20 year period.
- ❖ EU R&D spending market share has lost 25% of its value during 20-year period.

Summary: EU Chemicals Competitiveness



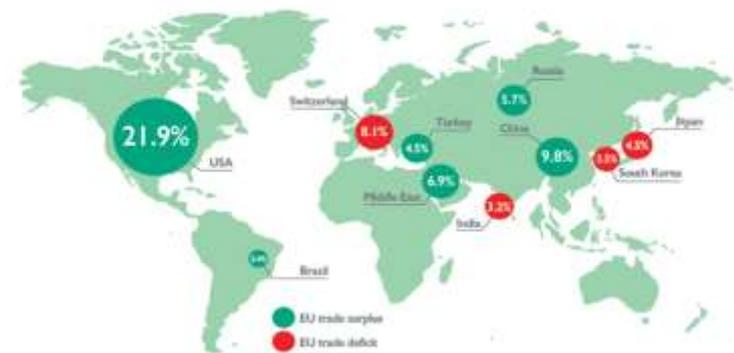
- ❖ *The chemicals business in Europe is at the heart of European Industry providing the essentials*
- ❖ *Chemicals is the third largest investor in the EU manufacturing*
- ❖ *Asia chemicals production outpaces other regions*
- ❖ *EU sales increase by more than 50% in 20 years, while EU world market share halves*
- ❖ *Capital spending intensity reached the highest level in eight years*
- ❖ *China dominates world chemicals investment*
- ❖ *The US was by far the EU's biggest trading partner in chemicals (nearly 22%)*
- ❖ *Feedstock and energy prices are the European industry's Achilles' heel*
- ❖ *Regulatory costs are shaping profitability of the EU chemicals sector*

EU share of global market sales



EU chemicals trade flows with top partners

Extra EU chemicals trade 2016 (€245.2 billion)



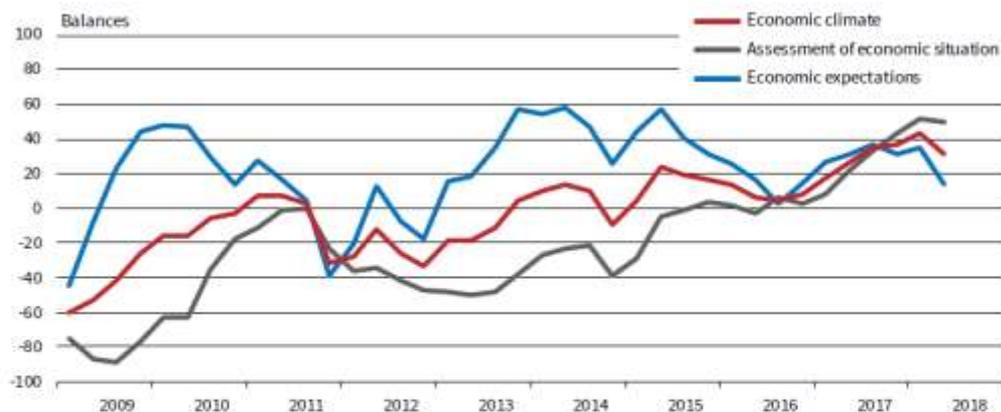


2. Chemical Industry in Europe – Latest Trends

2-1. The Euro area economic climate cooled down after reaching its highest level in Q1-2018



ifo Economic Climate Euro Area



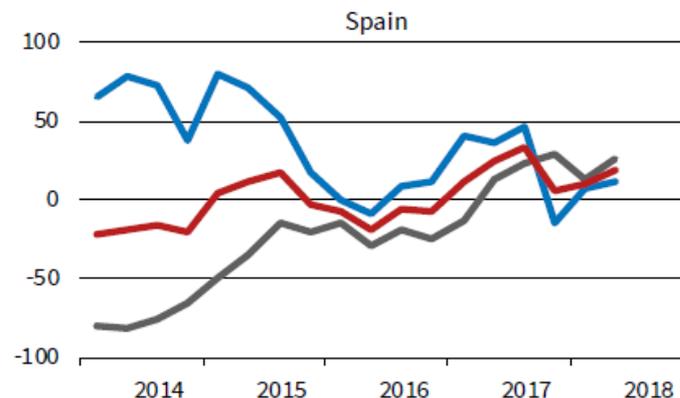
Source: ifo World Economic Survey (WES) II/2018.

ifo Economic Climate for the Euro Area (Balances)

Quarter/year	II/2016	III/2016	IV/2016	I/2017	II/2017	III/2017	IV/2017	I/2018	II/2018
Climate	6.6	4.6	8.3	17.3	26.4	35.2	37.0	43.2	31.1
Situation	-2.6	6.2	2.4	8.0	21.9	33.4	42.9	51.3	49.9
Expectations	16.2	2.9	14.3	27.0	31.0	37.1	31.3	35.4	13.8

Source: ifo World Economic Survey (WES) II/2018.

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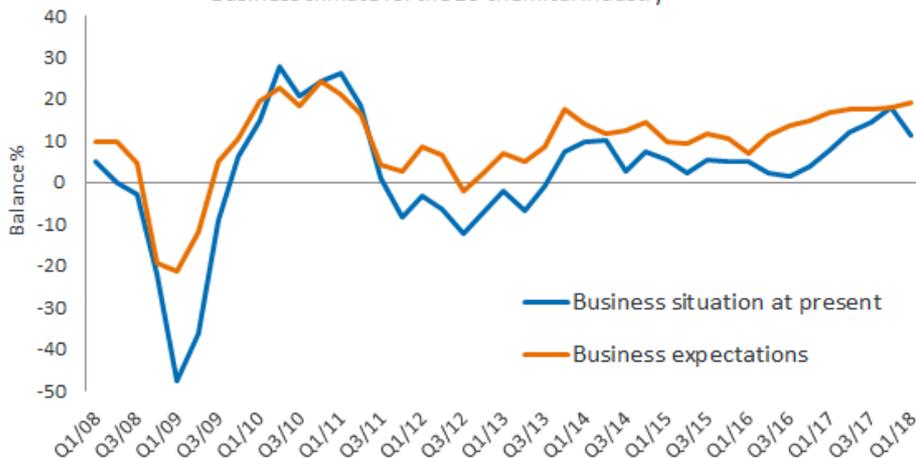
In Spain, the climate indicator rose again after slumping at the end of 2017.

- ❖ *The economic climate deteriorated in all key countries in the euro area. **The only exception was Spain.** In Italy, the climate clouded over heavily. Survey participants in Germany and France are also more pessimistic about the future, but their assessments of the current economic situation remain firmly positive.*
- ❖ *The economic upturn will slow down. Experts expect growth of 2.2% for the euro area for this year, versus 2.4% growth in 2017*

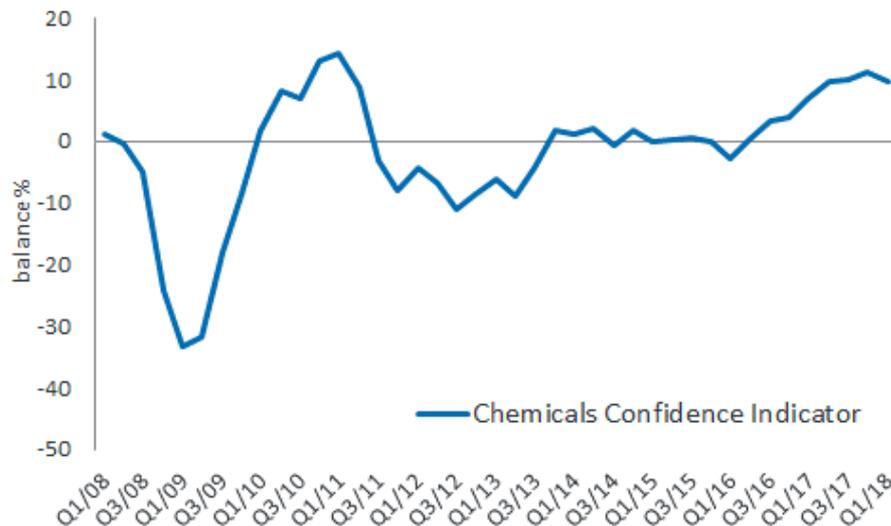
2-2. The chemicals business climate has worsened slightly, but remained satisfactory



Business climate for the EU chemical industry



Source: European Commission survey and cefic analysis (Nace 20)

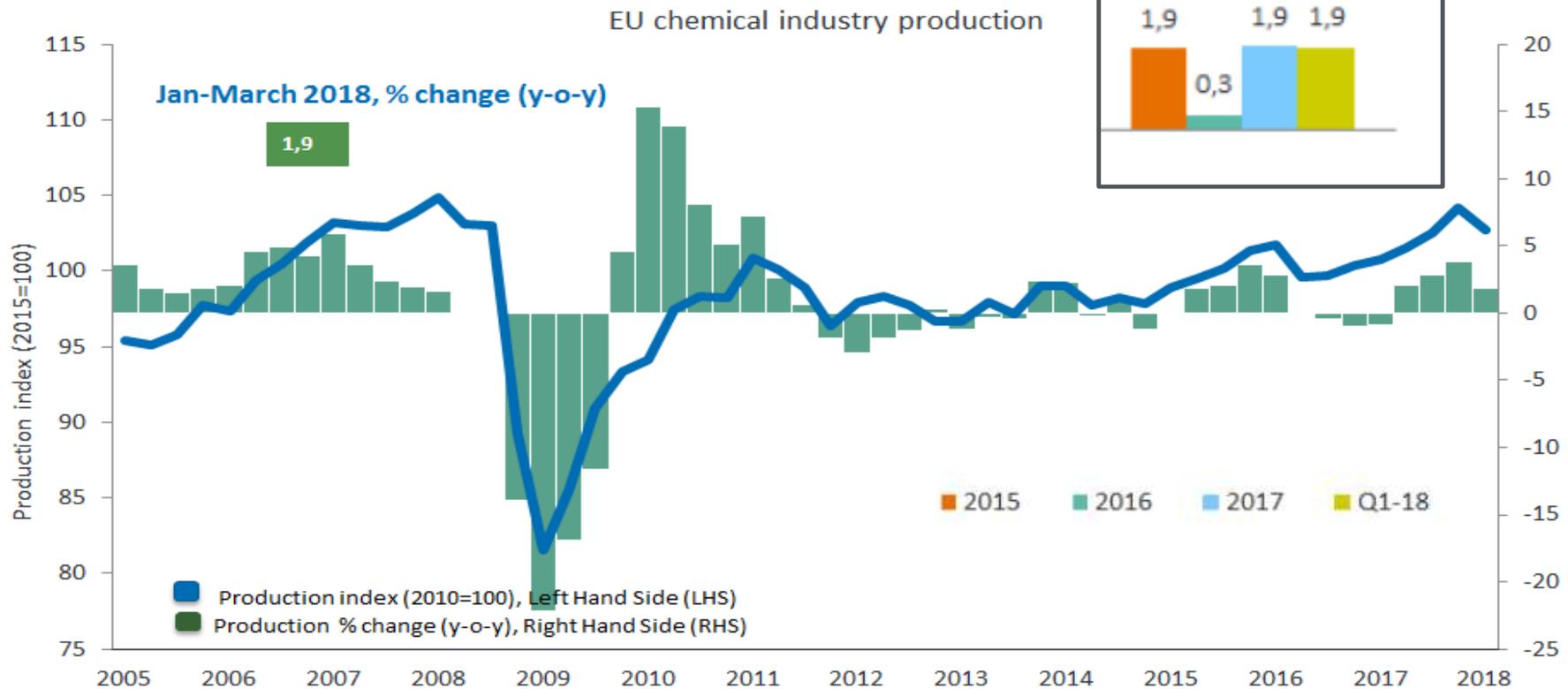


*Chemicals excluding pharmaceuticals (Nace 20)

- ❖ The chemical business situation at present became **less** favourable.
- ❖ Prospects for the coming months remained **relatively unchanged**.
- ❖ The business climate worsening slightly, but remained satisfactory,
- ❖ Last but not least, chemicals confidence **is still above the long-term average**.



2-3. EU Chemicals* Output down, returning to the same level as in Q3-2017



Source: Cefic Chemdata International, *Chemicals (excluding pharmaceuticals, Nace Rev2, C20)

- ❖ Production in the EU chemicals sector grew 1.9% in Q1-2018 (y-o-y), with output rising in some chemicals sub-sectors.
- ❖ Production index (2015=100) for the EU chemicals sector dropped from Q4-2017 to Q1-2018 (-1.4%), returning to more or less the same level as in Q3-2017.

2-4. EU Chemicals* Output down, returning to the same level as in Q3-2017



Output growth in chemicals by country (Q1-2018 Vs Q4-2017)

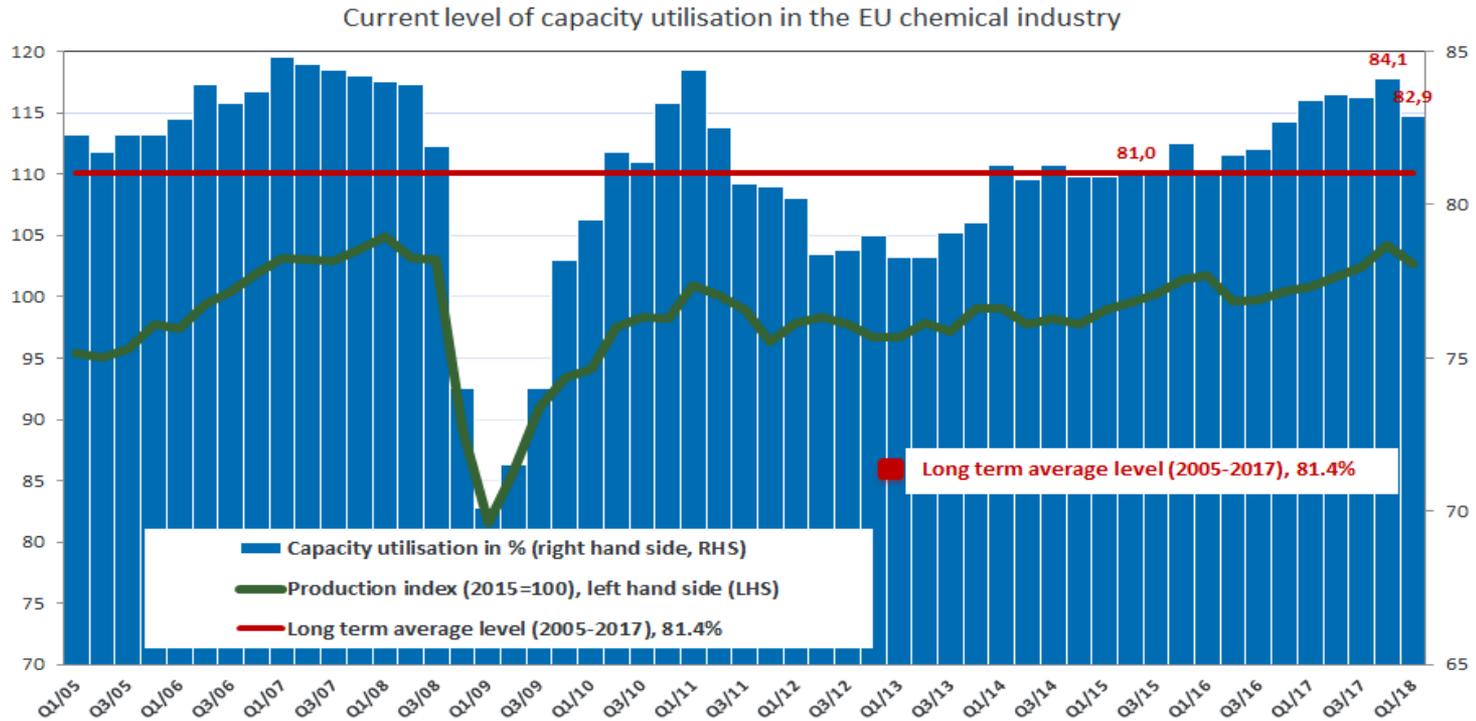


Output growth in chemicals by country (Q1-2018 Vs Q1-2017)



- ❖ Q1-2018 Vs Q4-2017: Chemicals output drops in major EU countries. Production in Italy and UK went down by less than 1%, the EU28 (-1.4%), Germany and France reported a decline of **more than 2%** (losing momentum)
- ❖ Q1-2018 Vs Q1-2017: EU output grew by about 2% (y-o-y), the major countries performed better than the EU28 are, Spain, the Netherlands, Germany (more than 2.5%). Italy is close to the EU level. No significant growth in UK and output declined by about **1%** in France

2-5. Capacity utilisation, down to the same level as in Q4-2016



Source: European Commission and Cefic analysis (Nace 20)

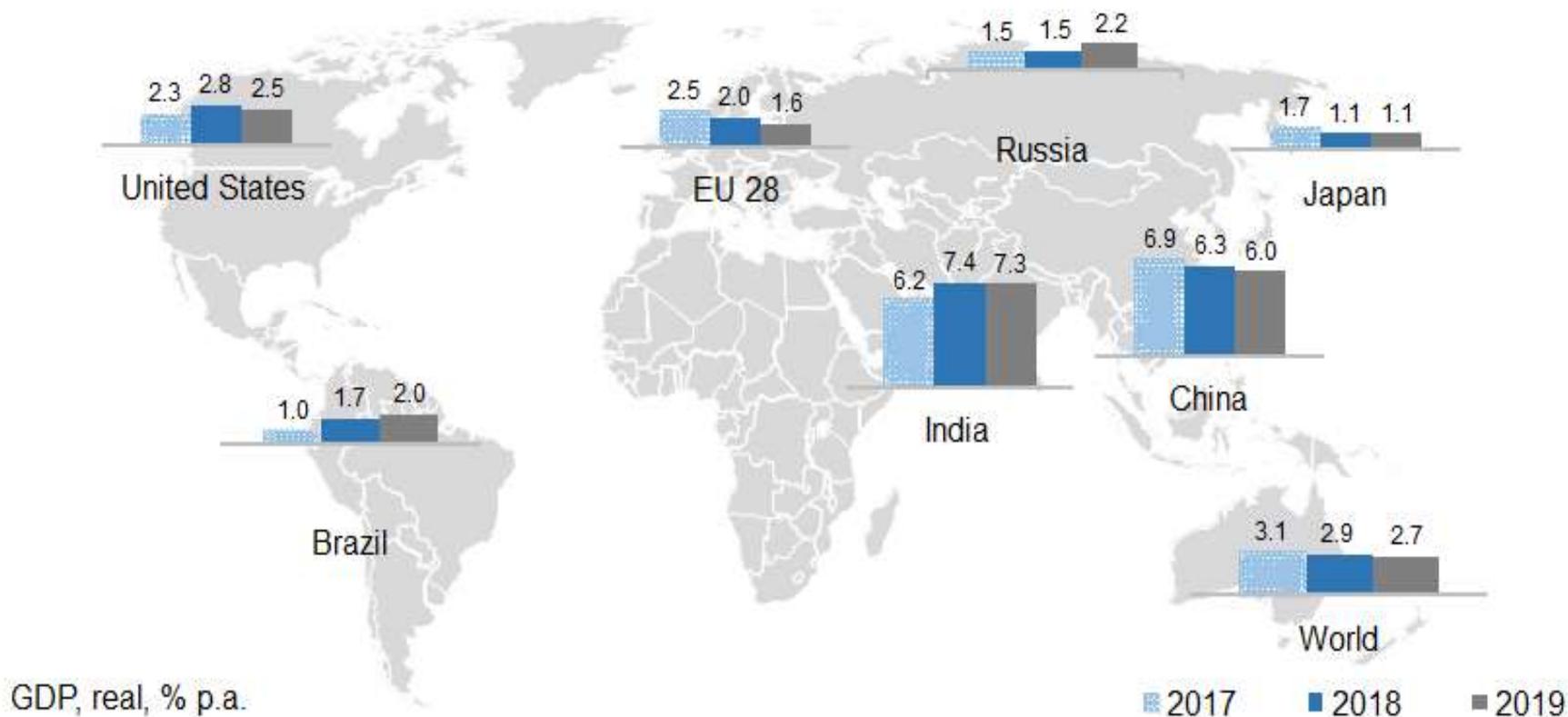
Business and Consumer Survey: companies answering the question "At what capacity is your company currently operating (as a percentage of full capacity)?"

- ❖ Capacity utilization has reached its second highest level in Q4-2017
- ❖ **Q1-2018:** Capacity utilisation reached the value of 82.9% in Q1-2018, down from 84.1% in Q4-2017 (-1.4%). This is in line with latest output development,
- ❖ Chemicals capacity is 2.3% above the long-term average (1995-2017).



3. Macro Economic Outlook

3-1. Growth still solid – but perspectives become cloudier



Source: Cefic EOTF Meeting, (Milano, June 2018)

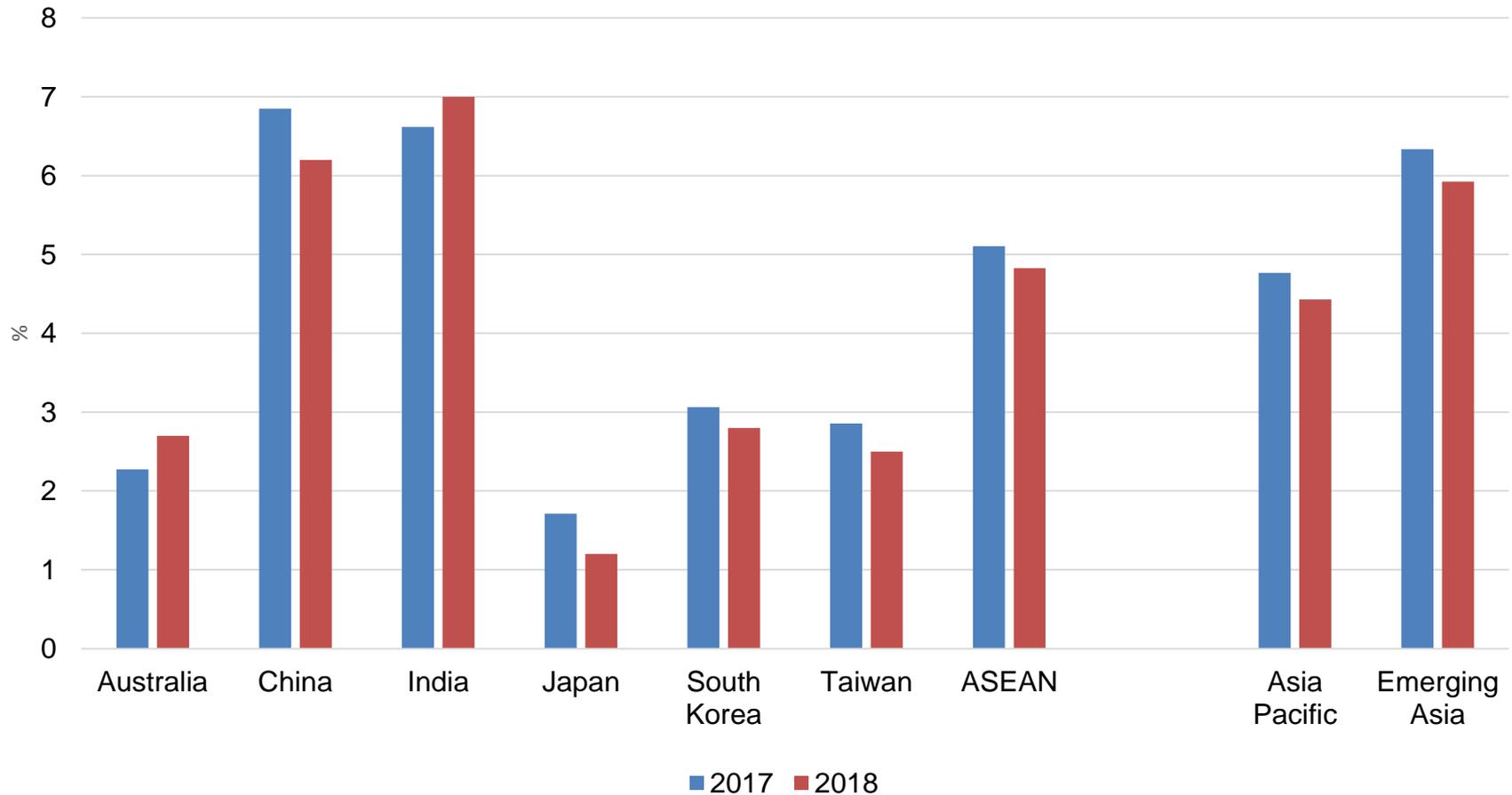
3-2. Global chances and risks: clear deterioration since Feb. 2018



3-3. Stable GDP growth in Asia Pacific



GDP growth



Source: Cefic EOTF Meeting, (Milano, June 2018)

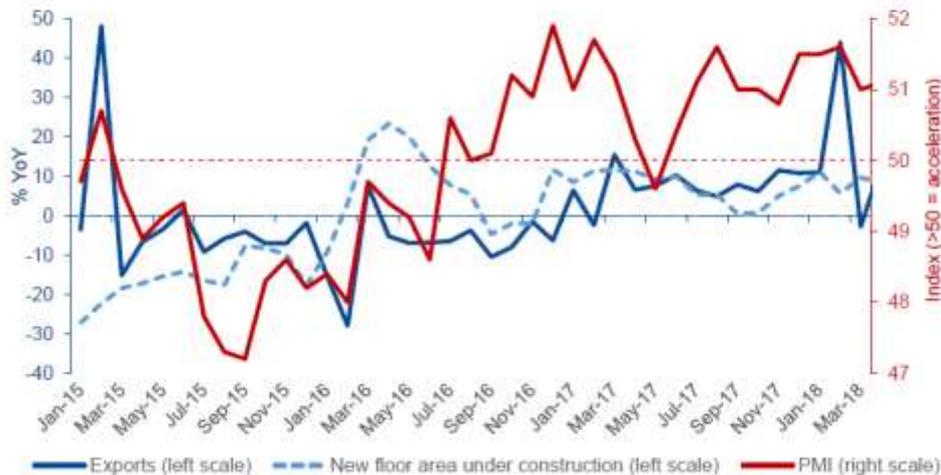
3-4. Escalating trade conflict between the USA and China



3-5. China: stable GDP and Industry growth, weak growth in Chemicals



Exports, Construction and Leading Indicators
In % (LHS) / Index (RHS)



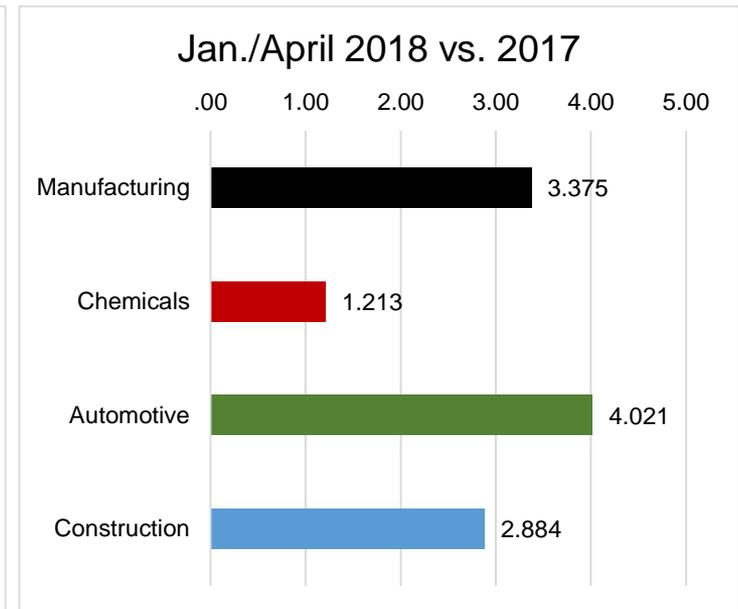
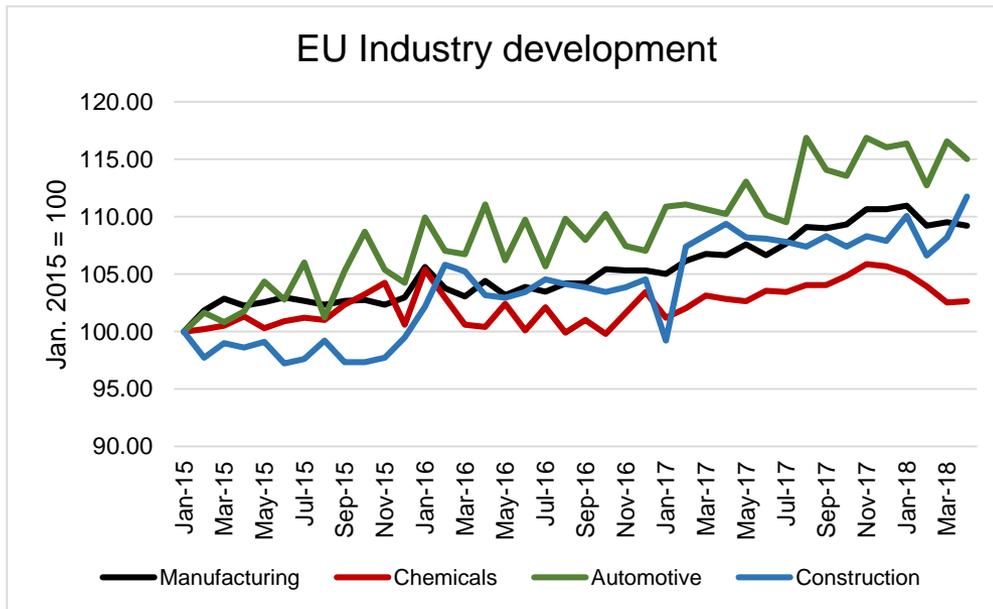
- **GDP growth Q1 2018 YoY**

- + 6.8% (2017: +6.9 %)

- **Industry growth Jan-Apr 2018 YoY**

- Industry: + 6.9% (2017: +6.1%)
 - Manufacturing: + 7.1% (2017: +7.0%)
 - Chemicals: + 3.7% (2017: +4.0%)

3-6. Strong EU industry development, but recent dynamics disappointing (y-o-y)





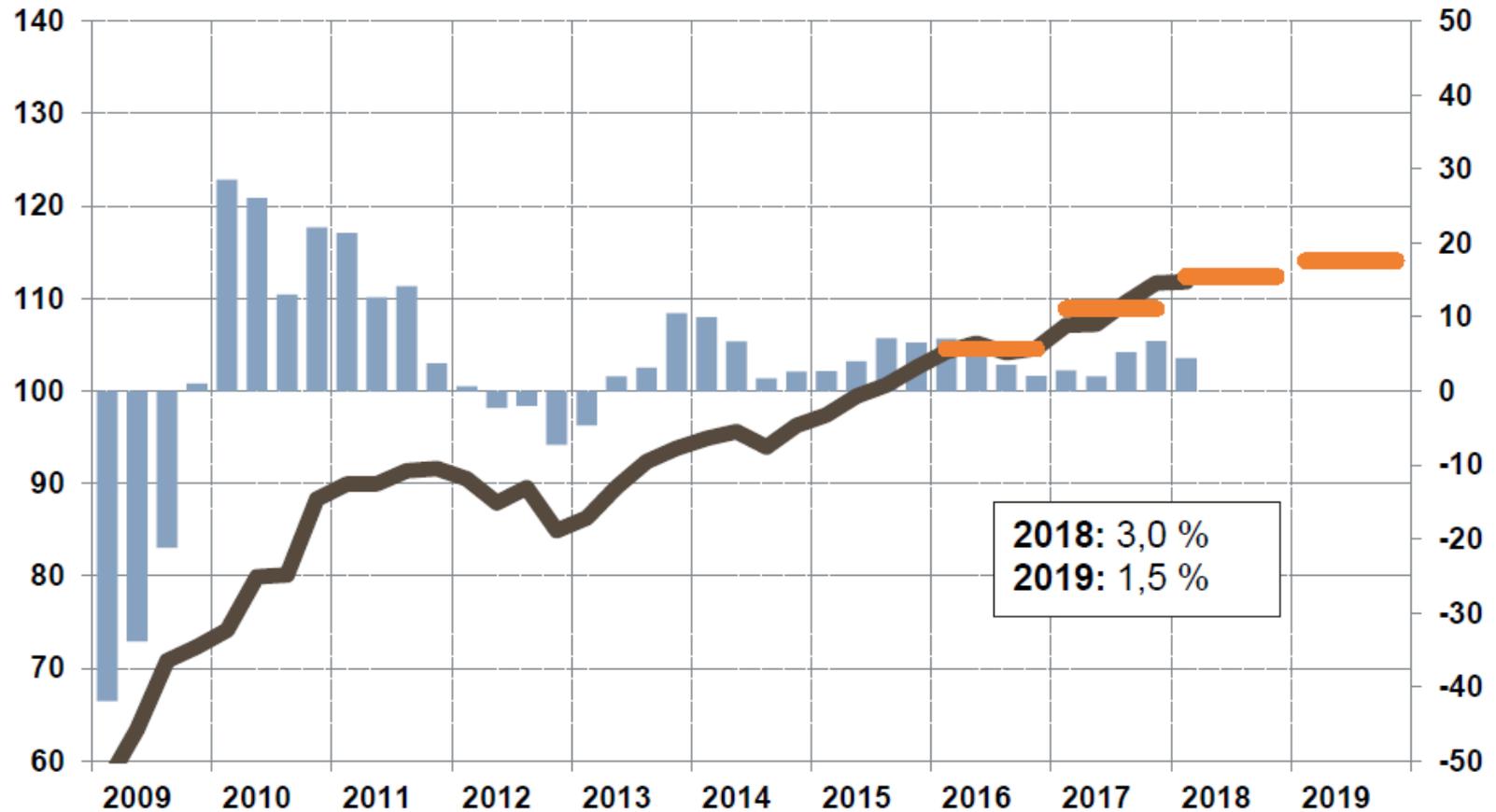
4. EU Chemicals Outlook

4-1. EU Motor Vehicle: Outlook (2018, 2019)



Production of motor vehicles, EU28

Index 2015=100, change against prev. year in %

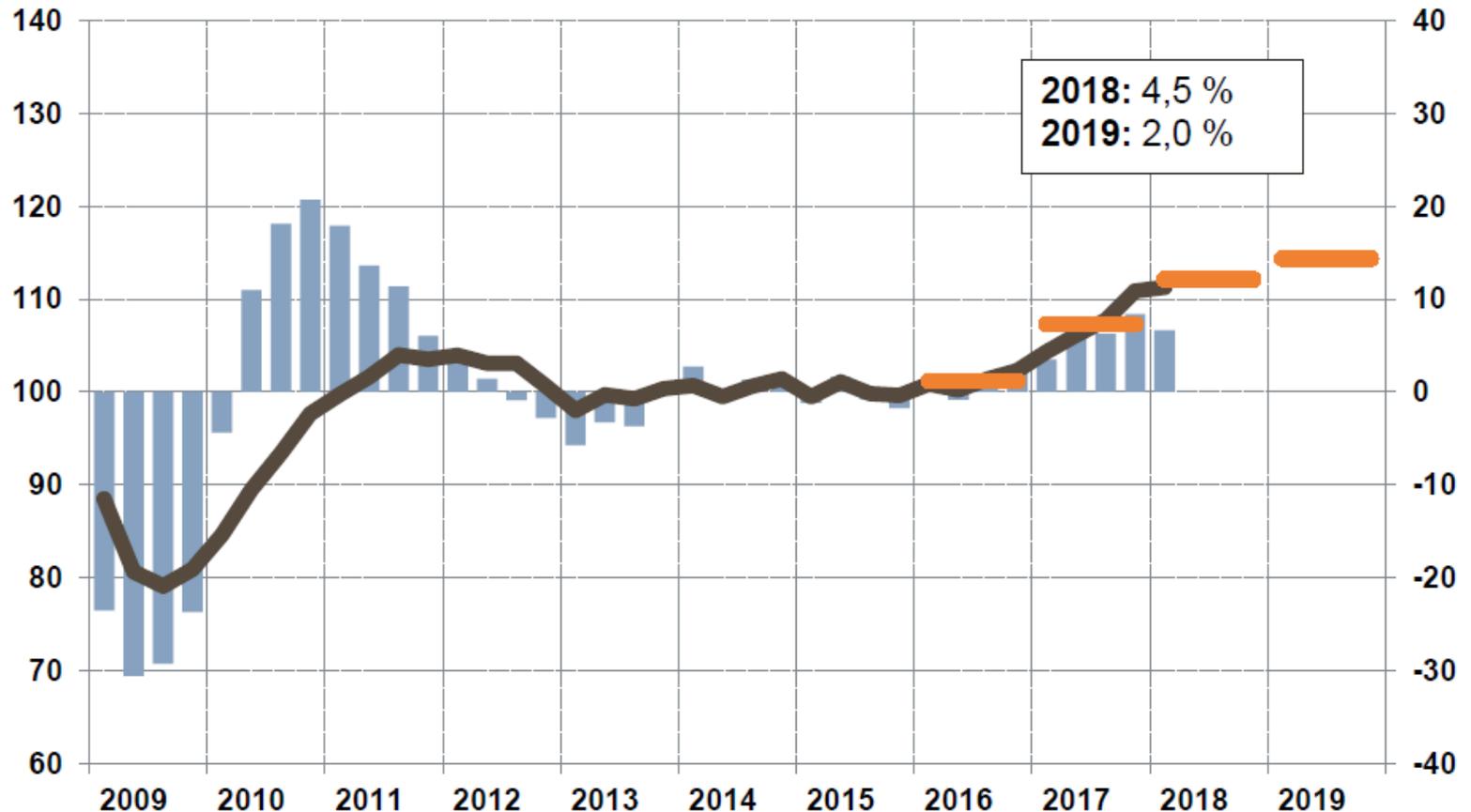


4-2. EU Mechanical Engineering: Outlook



Production of machines, EU28

Index 2015=100, change against prev. year in %

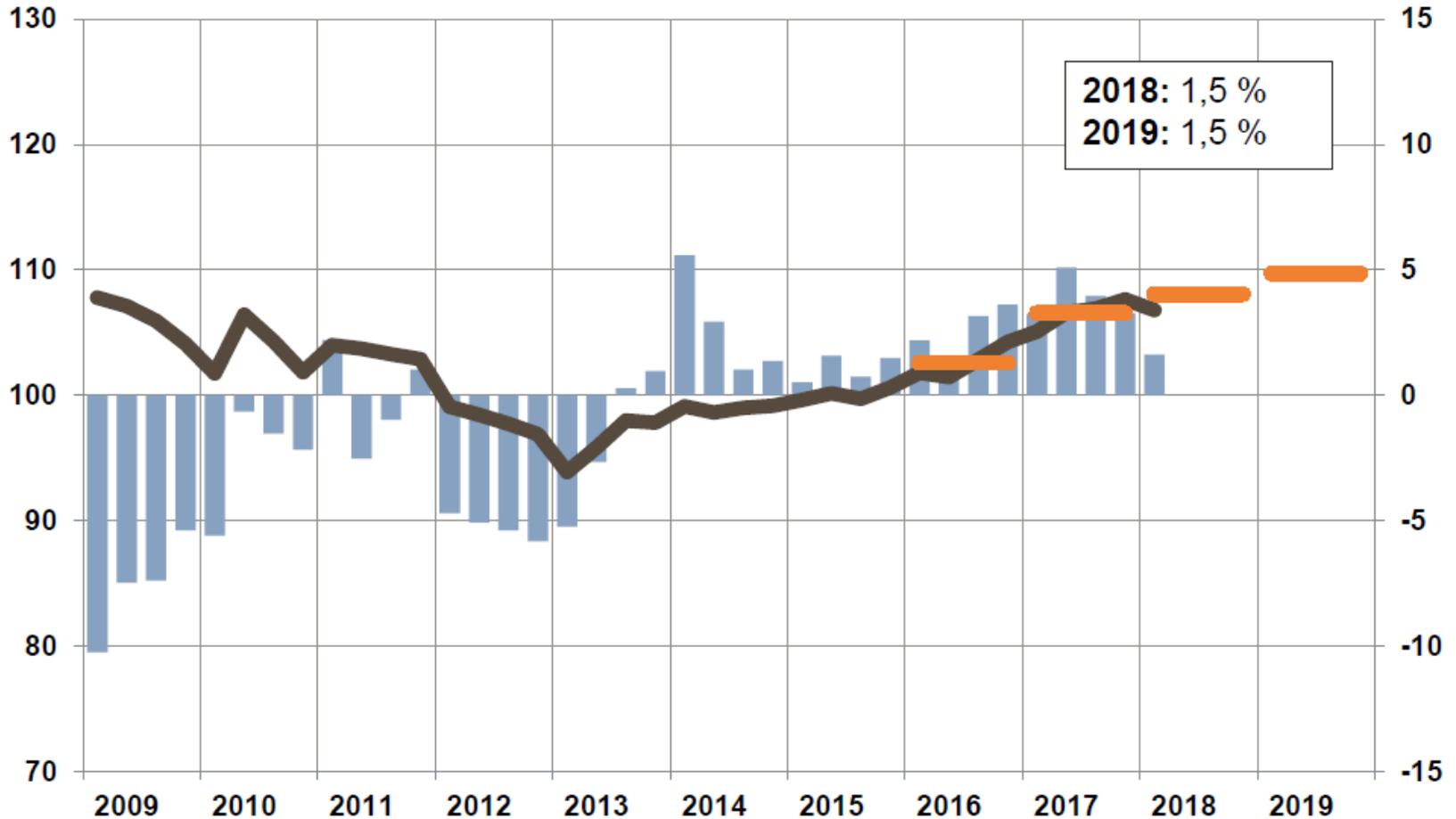


4-3. EU construction: Outlook (2018, 2019)



Production of construction industry, EU28

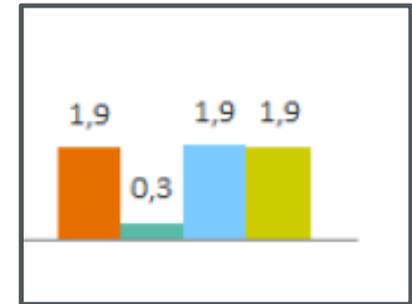
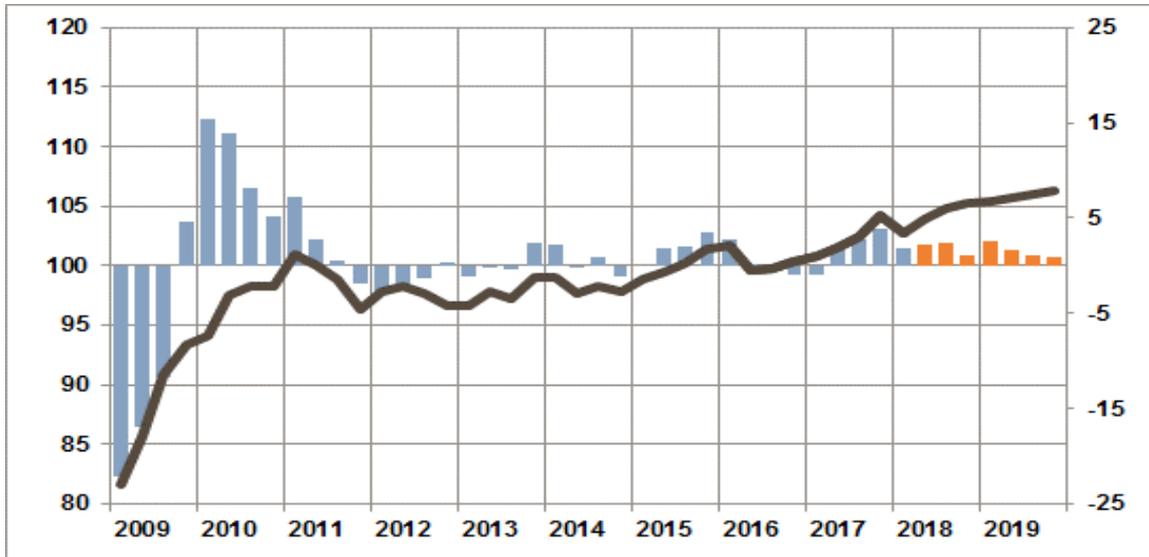
Index 2015=100, change against prev. year in %



4-4. EU Chemicals Outlook: 2018-2019



Chemicals: 2017 (1.9), 2018 (1.5), 2019 (1.5)



■ 2015 ■ 2016 ■ 2017 ■ Q1-18

Source: Cefic EOTF Meeting, (Milano, June 2018)

- ❖ Following years of stagnation since the economic crisis, output growth was less than 1% on average during the past five years, which shows that the chemical sector in Europe will have to find new ways to deliver strong growth for the long-term. Energy and feedstock costs are playing a key role on chemicals competitiveness in Europe.
- ❖ Looking ahead, Cefic expects chemical production to grow by 1.5% in the current year.
- ❖ Production is expected to follow moderate growth next year 1.5 %