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Slight upturn in output in contrast to weak demand and high energy prices

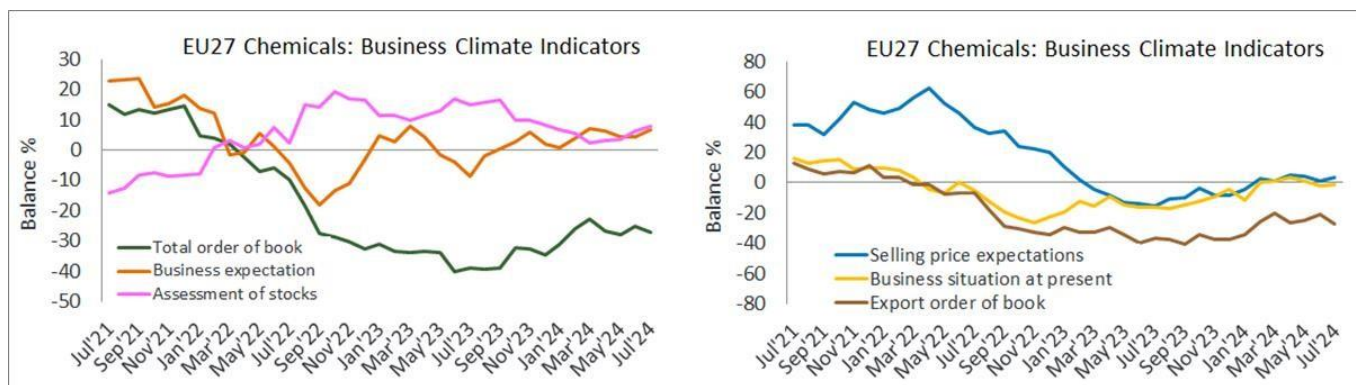
✓ *Summary*

- Since the second quarter of 2023, output of the EU27 chemicals industry has started to show a slight upturn. This trend continues in 2024, which is showing a steady but small improvement. Production of the EU27 chemical sector increased for the fourth consecutive quarter since Q3-2023. The EU27 chemical industry seems to have reached its ultimate low in Q2-2023. However, given the lack in demand growth, the European chemical industry production volumes are still far from the pre-Covid levels.
- Energy is still more expensive than before the crisis and not competitive on a global scale. EU gas prices – currently 4.7 times higher than the USA – need to decrease, and overall business confidence in the chemical industry needs to improve.
- Demand is weak. Incoming orders decline as downstream industry in Europe remains weak. Considering the weaker external demand , most EU manufacturing sectors are facing decreasing trade activity levels.
- In spite of some improvement earlier this year, at a level of 75.2%, capacity utilisation remains well below the long-term average of 81%

✓ **The overall EU27 chemicals business climate survey shows a slight downturn in July**

Compared to June 2024, the managers' opinion on the current level of overall order books decreased slightly in July 2024. The negative digits reflect the lack of demand for the chemical industry. Yet where stock levels are concerned, the destocking trend came to the end in March 2024. July 2024 is the fourth consecutive month showing an upturn in the stock level after six months of decline. Data on managers' production expectations shows a slight improvement in July after three months of decline. The confidence indicator of the EU chemical industry worsened slightly in July 2024, and remains well below the pre-crisis levels. According to the latest EU27 business and consumer survey, the uncertainty indicator decreased in July. Managers' uncertainty about their future business situation in services and construction and consumers' uncertainty about their future financial situation decreased. In contrast, business uncertainty increased slightly in industry and retail trade. To sum up, the EU27 chemicals business environment shows slight downturn, and is still facing a limited demand since March 2022.

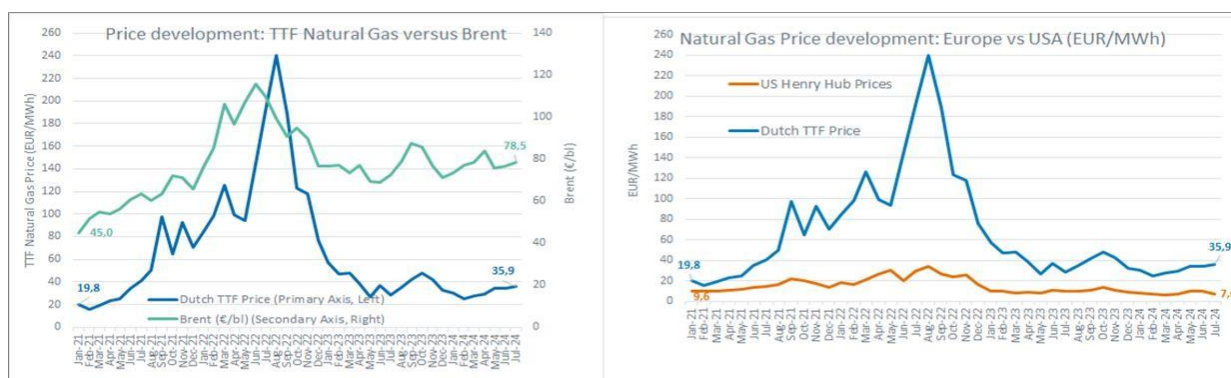
¹ Unless specified, chemical industry excludes pharmaceuticals.



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

✓ European gas prices (July 2024): 4.7 times higher than in the USA

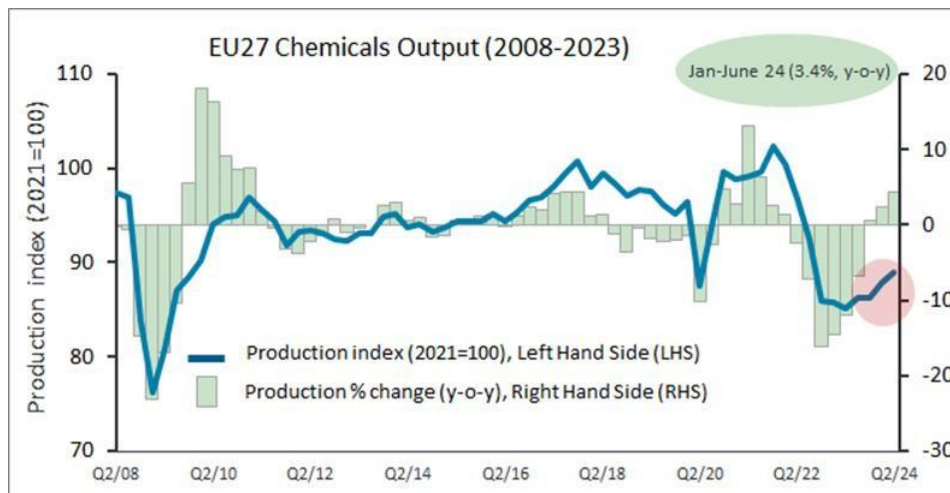
The chemical industry is energy-intensive using about 25 to 50 % of the natural gas it purchases as raw material, while the rest is used to generate steam and power for plants and processes. Chemicals are therefore highly impacted by gas prices. The current gas prices in the EU (Jan-July 2024) are 70% above the pre-crisis level (2014-2019). Compared to the USA, the gas price in Europe (July 2024) is 4.7 times higher, leaving Europe at a competitive disadvantage. In 2022 and 2023, EU27 chemical production fell by more than 6%, and 2024 is not yet showing strong signs of a recovery, largely due to energy prices. Europe must find solutions to its structural energy problem.



Source: ICE Dutch TTF Natural Gas Futures Historical Prices - Investing.com and INSEE Oil Prices data

✓ EU27 chemicals production is gradually increasing, but recovery is not there yet

Since the second quarter of 2023, output of the EU27 chemicals industry has started to show a slight upturn. This trend continues in 2024, which is showing increasingly better results. Output in Q1-2024 was 2.4% above Q1-2023 levels. Output in Q2-2024 was 1.2% higher than in Q1-2024, and 4.3% above Q2-2023 levels. Production of the EU27 chemical sector increased for the fourth consecutive quarter since Q3-2023. The EU27 chemical industry seems to have reached its ultimate low in Q2-2023. However, given the lack in demand growth, the European chemical industry production volumes are still not completely recovering.

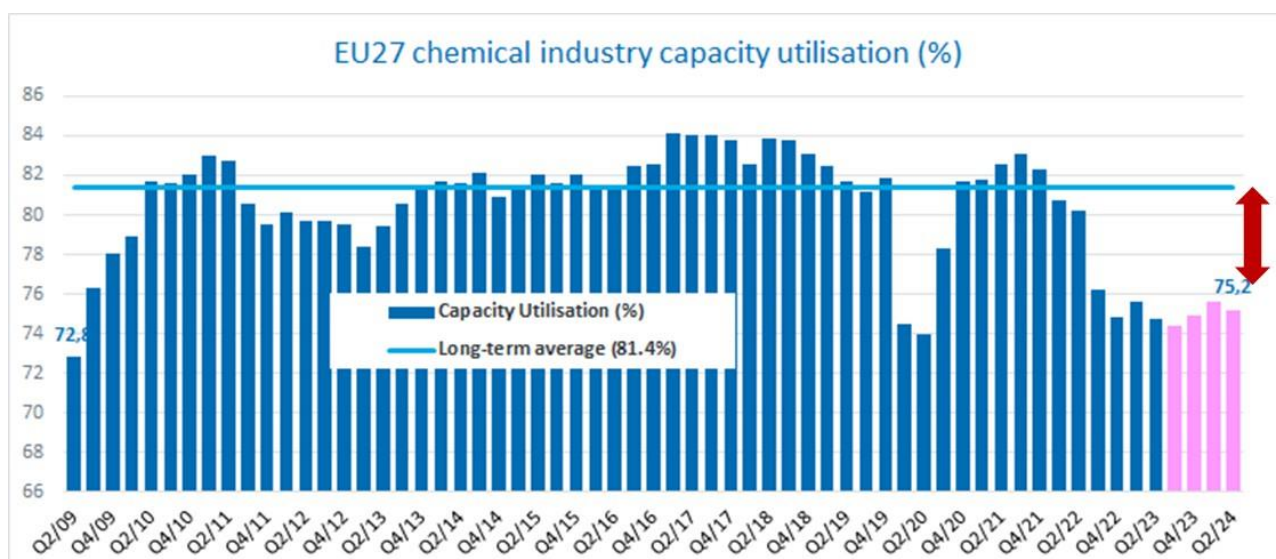


EU27 Chemicals	Production index	% Change (y-o-y)	% Change (p-o-p)
Q2/19	97,6	-1,9	-0,1
Q3/19	96,2	-2,2	-1,4
Q4/19	95,2	-2,0	-1,1
Q1/20	96,4	-1,4	1,3
Q2/20	87,6	-10,2	-9,1
Q3/20	93,7	-2,6	7,0
Q4/20	99,7	4,8	6,4
Q1/21	98,9	2,7	-0,8
Q2/21	99,1	13,2	0,2
Q3/21	99,6	6,3	0,5
Q4/21	102,3	2,6	2,7
Q1/22	100,4	1,4	-1,9
Q2/22	96,8	-2,3	-3,5
Q3/22	92,5	-7,1	-4,5
Q4/22	85,9	-16,1	-7,1
Q1/23	85,8	-14,5	-0,1
Q2/23	85,2	-12,0	-0,7
Q3/23	86,2	-6,8	1,1
Q4/23	86,3	0,5	0,2
Q1/24	87,9	2,4	1,8
Q2/24	88,9	4,3	1,2

Source: Eurostat and Cefic analysis (2024)

✓ EU27 chemicals capacity utilisation slightly down in Q2-2024

EU27 capacity utilisation has shown encouraging signs during Q4-2023 and Q1-2024. The chart below reports an increase of capacity utilisation in the EU27 chemical industry from 74.4% in Q3-2023 to 75.6% in Q1-2024. However, the second quarter of 2024 showed a small decrease of capacity utilisation which reached the value of 75.2%. The current level of capacity is still well below the long-term average of 81.4%. The European chemical industry needs to operate profitably. Some chemical companies in Europe are planning “significant staff cuts in the next few months,” according to the ifo survey.

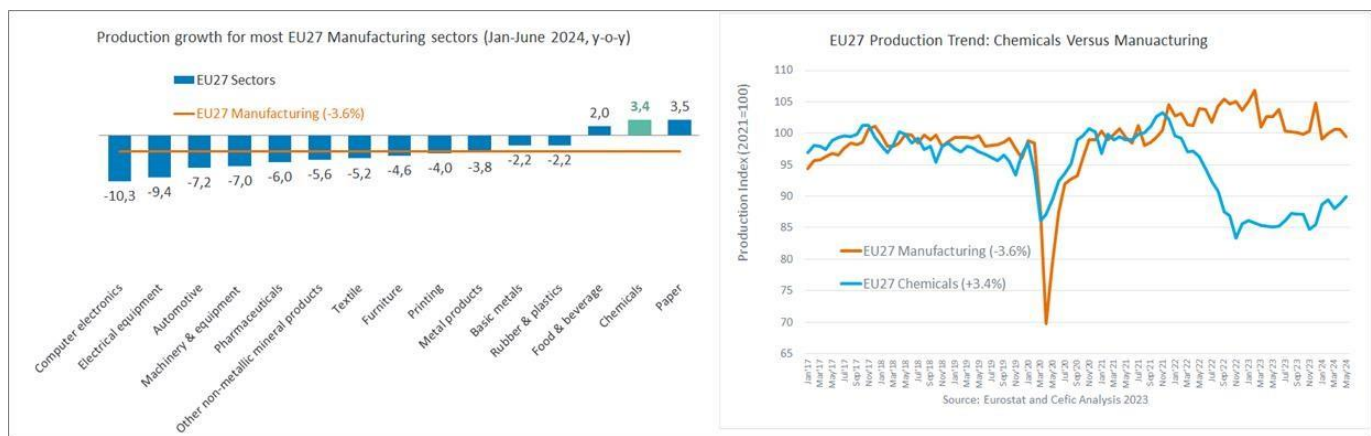


Source: Eurostat and Cefic analysis (2024)

✓ EU27 chemical industry output outperforms other EU27 manufacturing sectors (1H-2024)

At -3.6%, output of the entire EU27 manufacturing sector was significantly lower during the first half of 2024 compared to the same period in 2023. The largest output decline is attributable to the computer electronics sector: production declined by more than 10% in 2024 compared to 2023 (Jan-June). Rubber and plastics only saw a 2.2% decline compared to Jan-June 2023. Only three sectors appear to achieve better results: food and beverage, chemicals, and paper. At +3.4%, the EU27

chemical industry reported the second-highest output increase among the EU27 manufacturing sectors, slightly below the paper’s results (+3.5%), and significantly above food and beverage (2.0%).

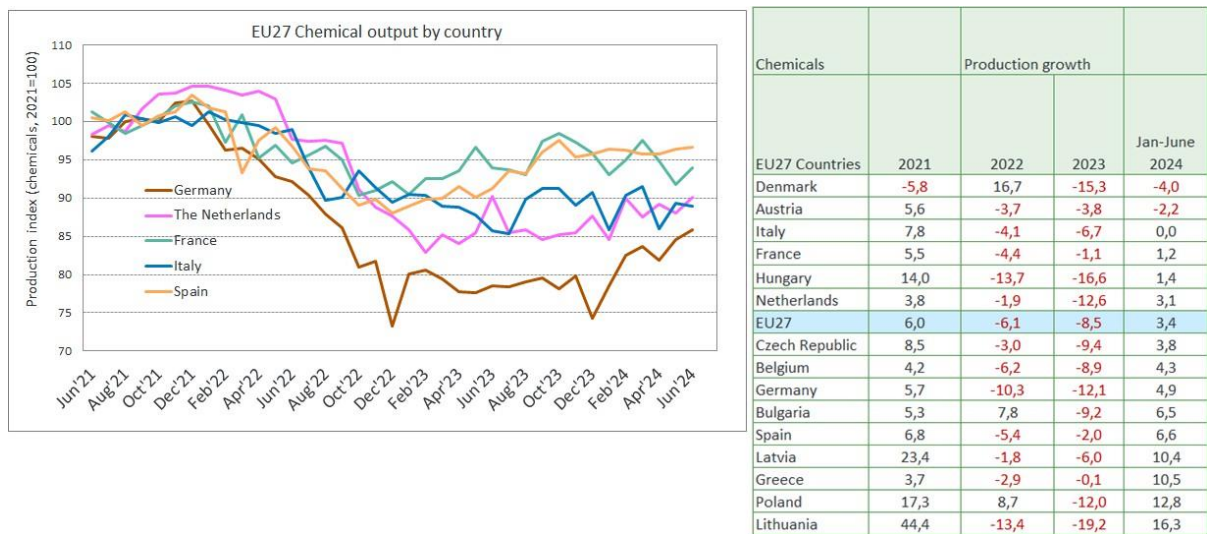


Source: Eurostat and Cefic analysis (2024)

These encouraging numbers should be taken with a grain of salt, given that their benchmark is 2023: a year where production was still far below pre-covid levels. A strong recovery of the chemical production in 2024 is unlikely when most of the chemical industry’s downstream users – automotive, rubber & plastics, construction, computer production – are still showing downward trends. The construction and automotive markets are still struggling; in particular, there are concerns for possibly low production and demand levels in the second half of 2024 and 2025 for cars and electric vehicles.

✓ Main EU27 countries showed better chemical production results in 2024 (Jan-June)

One third of EU27 chemicals sales is attributable to Germany (33%, data 2023). For 2024, data analysis shows a patchy situation across EU27 Member States: chemicals production grew in Germany (4.9%) and Belgium (4.3%) compared to 2023 (Jan-June). The growth in Spain (6.6%) is even higher. The growth in the Netherlands (3.8%) is slightly above the EU27 growth. With 1.2%, France showed a modest growth. Apart from Italy (zero growth) and a few other Member States, the chemical industry in the largest EU economies started the new year better than expected. However, the increase in chemical volumes throughout the first six months of 2024 (+3.4%, y-o-y) should be interpreted with a lot of caution. A lack of orders and high costs continue to impact European chemical companies.

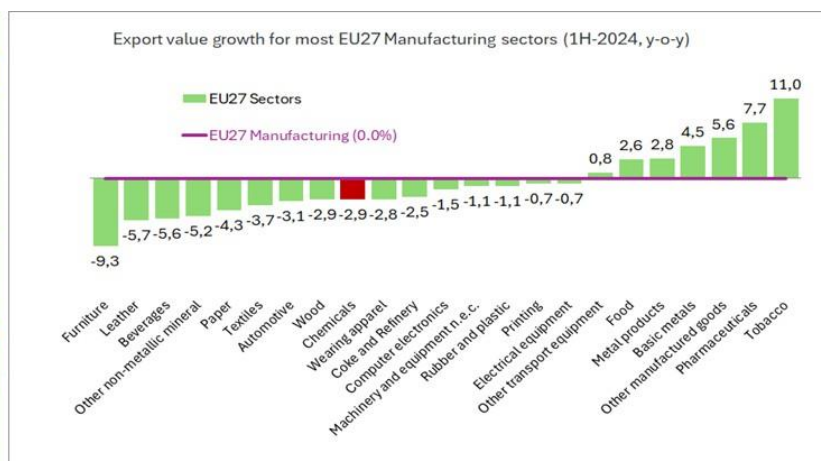


Source: Eurostat and Cefic analysis (2024)

✓ **EU27 chemicals trade activity down by 2.9% in 1H-2024 compared to 1H-2023**

Most EU manufacturing sectors are facing decreasing trade activities. Data analysis shows that EU27 chemical exports reached the value of €113.8 bn in 1H-2024, down from €117.2 bn in 1H-2023 (-2.9%). Most of the chemical industry's downstream users – automotive, rubber & plastics, computer production – are still showing downward trends. The whole EU27 manufacturing sector shows no positive growth of exports during the first half of 2024. Pharmaceuticals is still an exception, with growth of exports values of more than 7%.

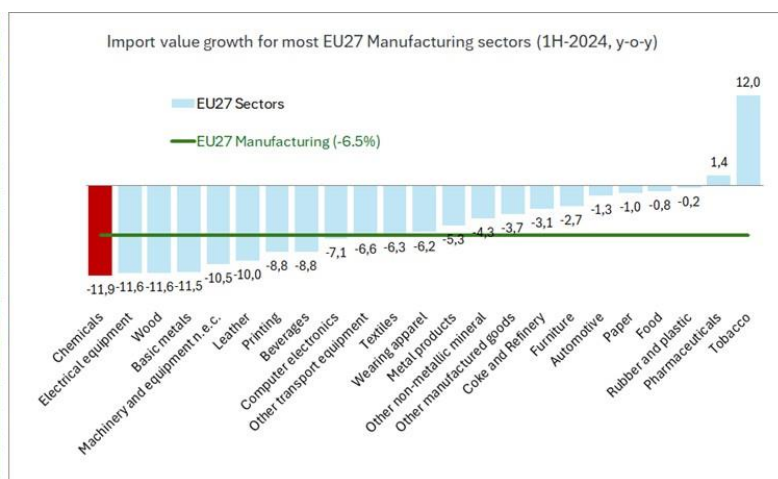
		1H-2024	Exports (€bn)
			Share
(C10-C32)	Manufacturing	1215,2	100%
10	Food	73,7	6,1%
11	Beverages	18,4	1,5%
12	Tobacco	3,6	0,3%
13	Textiles	11,4	0,9%
14	Wearing apparel	19,5	1,6%
15	Leather	18,5	1,5%
16	Wood	9,8	0,8%
17	Paper	16,7	1,4%
18	Printing	0,05	0,0%
19	Coke and Refinery	51,1	4,2%
20	Chemicals	113,8	9,4%
21	Pharmaceuticals	155,3	12,8%
22	Rubber and plastic	31,0	2,5%
23	Other non-metallic mineral	14,9	1,2%
24	Basic metals	49,4	4,1%
25	Metal products	35,6	2,9%
26	Computer electronics	95,0	7,8%
27	Electrical equipment	68,1	5,6%
28	Machinery and equipment n.e.c.	163,3	13,4%
29	Automotive	144,0	11,8%
30	Other transport equipment	64,7	5,3%
31	Furniture	9,4	0,8%
32	Other manufactured goods	47,8	3,9%



Source: Eurostat and Cefic analysis (2024)

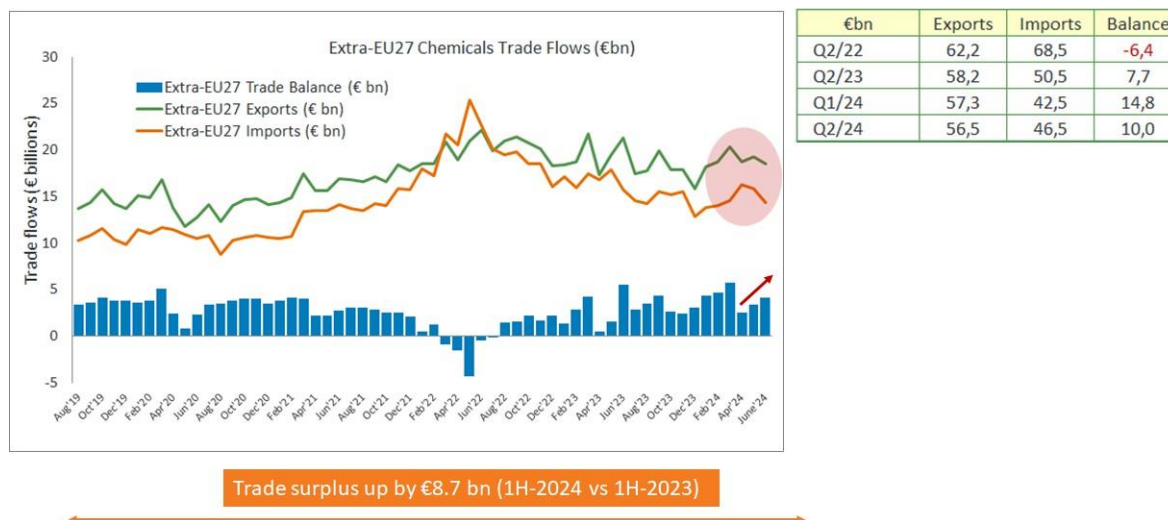
On the import side, the EU27 chemicals industry achieved the value of €89 bn, down from €101.1 bn in 1H-2023 (-11.9%). Chemicals reported the largest import drop among the EU27 manufacturing sectors. The whole EU27 manufacturing sector shows a significant drop of imports of 6.5% in 1H-2024 compared to 1H-2023.

		1H-2024	Imports (€bn)
			Share
(C10-C32)	Manufacturing	920,1	100%
10	Food	47,3	5,1%
11	Beverages	4,0	0,4%
12	Tobacco	1,6	0,2%
13	Textiles	13,9	1,5%
14	Wearing apparel	39,6	4,3%
15	Leather	16,0	1,7%
16	Wood	5,0	0,5%
17	Paper	8,1	0,9%
18	Printing	0,03	0,0%
19	Coke and Refinery	41,4	4,5%
20	Chemicals	89,0	9,7%
21	Pharmaceuticals	68,9	7,5%
22	Rubber and plastic	26,1	2,8%
23	Other non-metallic mineral	10,1	1,1%
24	Basic metals	56,2	6,1%
25	Metal products	28,5	3,1%
26	Computer electronics	153,7	16,7%
27	Electrical equipment	71,5	7,8%
28	Machinery and equipment n.e.c.	74,8	8,1%
29	Automotive	69,6	7,6%
30	Other transport equipment	47,0	5,1%
31	Furniture	9,3	1,0%
32	Other manufactured goods	38,5	4,2%



Source: Eurostat and Cefic analysis (2024)

Taking into account the first six months of 2024, trade surplus increased by €8.7 billion compared to the first half of 2023 (+54%). However, these gains in trade surplus are mainly driven by the stronger drop in imports (-11.9%) than by an increase in exports.

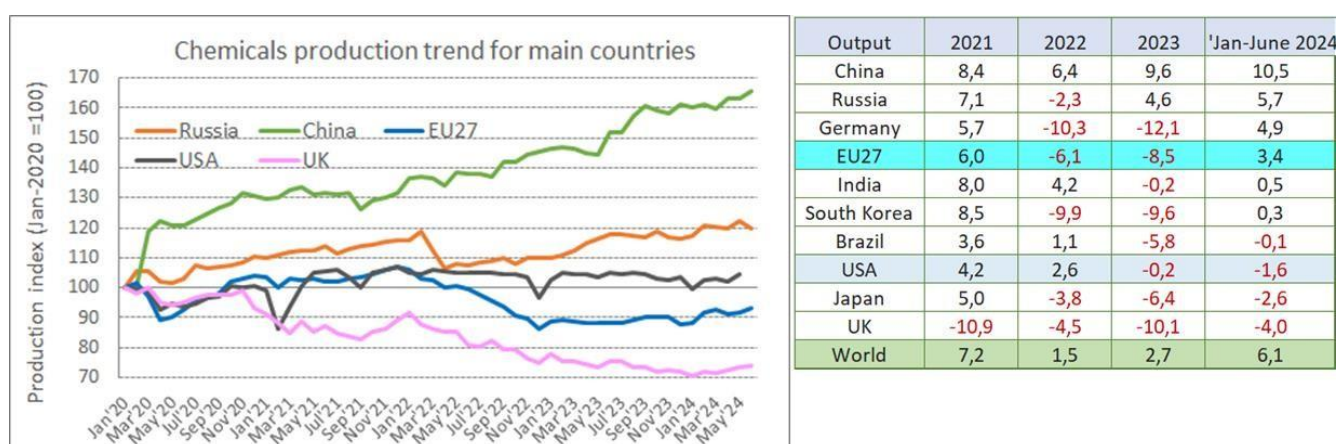


Source: Eurostat and Cefic analysis (2024)

Europe is currently facing an intense competition on global markets in times of weak global demand and low capacity utilisation can be seen as a consequence. Europe would benefit from a strong economic recovery of China and a continued decrease of energy prices (recorded for both crude oil and natural gas). These would stimulate the recovery of the European economy in the mid-term, and particularly of the energy intensive sectors and their customer sectors.

✓ Global chemicals production, up by 6.1% in 2024 (Jan-June)

China accounts for 43% of global chemicals sales (data 2023). The latest monthly data shows output in China increased for the third consecutive month since March 2024. Despite weak global demand, chemical production in China grew by more than 10% for the first half of 2024 compared to the same period in 2023. It is slow and uncertainty is still significant regarding 2024 and 2025. The UK shows slight improvement in Q2-2024 but it was not yet strong enough to lead to positive growth for the first half of 2024. Overall, global chemical output grew by more than 6% during the first six months of 2024 compared to 2023.



Source: Eurostat and Cefic analysis (2024)

Looking ahead, the global outlook for the second half of 2024 is really mixed: The market concerns are now the ongoing weakness of consumer consumption in China, soft trends in automotive (especially EVs) and soft landing in the USA. Some analysts believe that we should see an improvement after summer. Others think that recovery is still some way off and the demand increase will be limited as economic conditions seem to be weak in Germany and in the USA, and the situation remains unchanged in China.