4th May 2020

EU Chemical Trend Report (CTR): Monthly Briefing

❖ 1. EU Economic Sentiment Indicator (ESI)

- ✓ **The strongest monthly decline on record since 1985:** In April 2020, the *Economic Sentiment Indicator* (ESI) crashed in the EU (−28.8 down to 65.8 points) compared to March 2020. This was the strongest monthly decline in the ESI on record (since 1985), surpassing by far the previous negative record from March.

- ✓ **The ESI indicators very close to the levels of the Great Recession in March 2009**: The ESI indicators are now far below their long-term averages of 100 and very close to the lowest levels registered during the Great Recession in March 2009. The Employment Expectations Indicator (EEI) plummeted to its lowest level on record (by 30.1 points to 63.7 in the euro area and 31.2 points to 63.3 in the EU).

- ✓ **The ESI crash was particularly marked in services and retail trade:** The collapse in the ESI resulted from an exceptionally strong fall in confidence among consumers and in all the business sectors. Compared to the other sectors, the crash was particularly marked in services and retail trade; the fall in construction confidence, although the strongest on record, was less marked than in the other sectors.

- ✓ **The ESI crashed more in Belgium and UK:** Amongst the largest EU economies, the ESI crashed more in Belgium (-38.4%) and the UK (-36.7%), the Netherlands (-33.2%) (when comparing April data to March of 2020), followed by Germany (-29.6%), Spain (-23.2%) and France (-13.5%). The ESI declined also in Italy (no data could be collected in Italy due to the strict confinement measures). Importantly, in many countries the response rate was lower this month than usual. The data published in this release of the EU commission survey may be less accurate and comparable across countries than usual.

- ✓ **Industry confidence remained above the record bottom of March 2009:** While industry confidence fell dramatically, it remained above the record low of March 2009. The steepest monthly fall on record resulted first and foremost from managers' crashing production expectations. Also their appraisals of the current level of overall order books tumbled.

  Source: EU Consumers and Business Survey Data and Cefic Analysis, 4th May 2020

❖ 2. The EU Chemical Business Climate

- ✓ **Production expectations below the levels of the Great Recession of 2009:** The business environment of the EU chemicals sector is significantly impacted by the high degree of uncertainty related to COVID-19. The steep decline in business climate is caused mainly by the disruption on supply chain and the lack of demand in both the EU and China. Latest data from EU commission and business survey (April 2020) shows a dramatic decline of manager's appraisals of production expectation in April 2020 compared to March 2020. This was the strongest monthly decline in the "production expectation for the months ahead" on record. In April 2020, production expectations below the levels of the Great Recession of 2009 (January 2009).

- ✓ **Export order books reported a strong decline**: Managers working for chemicals showed more negative assessments on the "business situation at present". In line with the EU industry, the assessments of export order books, which do not enter the calculation of the confidence indicator, crashed. Employment expectation went down dramatically in April compared to one month ago.

Source: EU Consumers and Business Survey Data and Cefic Analysis, 4th May 2020

❖ 3. EU Business Development of Customers

- ✓ **EU manufacturing, 1.1% below the previous year's level (Jan-Feb 2020):** Industrial growth in the EU area remained negative (-1.1%) during the first two month of 2020 compared to the same period of 2019. It is still too early to evaluate the impact of COVID-19 on production level of the EU manufacturing. The analysis shows that output (Jan-Feb-2020) was 1.0% above the Q4-2019 level. We didn't see any drop of output at the beginning of the current year. Data on Q2-2020 are more than needed to measure the expected crash on production for most EU industrial sectors.

- ✓ **EU output below the previous year's level for most EU sectors:** Most EU sectors reported a drop of output in Jan-Feb 2020 compared to the same period of 2019. As expected, the strongest fall was for Automotive (-4.8%), followed by basic metals (4.2%), textile (-3.8%), machinery and equipment and electrical appliances (-3.7% each). Sectors such as paper, printings and metal products reported an output decline of less than 2.5%. Rubber and plastics were less impacted, and production fell by 0.6% during the same period. Finally, food and beverage and electrical equipment registered an output increase of less than 1% during the first two months of 2020 compared to Jan-Feb- 2019.

- ✓ **EU chemicals output remained at the same level as last year:** The analysis on chemicals industrial activity show that the massive effects of COVID-19 is not yet captured in the chemicals data for the first two months of 2020. Chemical output remained unchanged compared to the first two months of 2019. Amongst the largest EU economies, chemical output fell more significantly in UK (-6.4%), France (-6.3%), Italy (-3.5), the Netherlands (-1.5%) and Spain (-1.2%).

- **Chemicals in China: The lowest level of production since December 2015:** Production index plunged dramatically in Jan-Feb-2020 to about 104.6 which is the lowest level of production since December 2015. The situation in the Chinese manufacturing sector is even worse where production dropped by 17.9% during the same period. The COVID-19 has severely impacted most industrial sector at the beginning of the current year. In Japan, output fell by 3.1 % during the first two months of 2020 compared to the same period of 2019. The US chemical output reported an increase of 1.6% during the same period this year.

- **Global chemicals:** The latest monthly chemical production data did not reflect the full extent of the coronavirus impact on global chemicals production, but estimates produced by the American Chemistry Council suggest that production fell by 2.4% on the month in February – the sharpest monthly fall since the GFC (Global Financial Crisis). Data on January 2020 shows that chemical output was 1.5% above the previous year's level (data on February are not available for the global chemical output). The Global chemicals output is expected by OE experts to remain weak in Q2 2020 with a rebound predicted in the second half of this year driven by pent-up demand, improving confidence and more supportive global conditions.

  Source: Eurostat Data and Cefic Analysis, 4th May 2020

3. Global Manufacturing

- **Global Manufacturing 2020: The first annual drop since the Global Financial Crisis:** The rapid spread of the coronavirus has led to a significant disruption in economic activity. As expected, services activity more impacted by COVID-19 compared to the manufacturing sector. Output of the global manufacturing sector is expected to remain weak in Q2-2020 before a swift rebound foreseen in the second half of this year as the spread of the virus slows. Global manufacturing is expected to fall by 2.8% in 2020 - the first annual drop since the GFC (Global Financial Crisis).

- **Construction: The first-time output has turned negative since inception in 2000**. In China, February data shows real estate development down by 16.3% y/y, the first time the series has turned negative since inception in 2000. Eurostat data shows that EU construction was less impacted compared to the other sectors. Output in Jan-Feb 2020 was 2.1% above the previous year's level. It is still too early to catch the impacts of the coronavirus outbreak. However, a lot of uncertainty is surrounding the construction sector for the coming months. As highlighted in OE briefing, an increasing number of countries are perceived to suspend construction activity as isolation policies and travel restrictions become more widespread. In the UK, the latest data for February do not yet capture the impacts of COVID-19. However, the recent scaling down of construction activities by major UK firms such as Persimmon, Taylor Wimpey and Barratt, and the pausing of major engineering projects such as HS2 suggests upcoming data releases will decline sharply.

Source: Oxford Economics Monthly Industry Briefings: Global Industry, 31th March 2020