

# Economic summary

FIGURE 1. IKEM INDEX OF SALES ON THE DOMESTIC AND EXPORT MARKETS Q3 2016–Q4 2018. AN INDEX VALUE OVER 100 INDICATES GROWTH, MEASURED AT ANNUAL RATE.

Source: IKEM



## Export-focused IKEM companies equip for Brexit

The final quarter of last year provided a tentative increase in sales for the one-fifth of Swedish industry that IKEM represents: the petroleum, chemicals, pharmaceuticals and plastics and rubber industries. On the vital export market, growth was slightly positive during the period, expressed as an index of 106. The trend on the domestic market was identical. The companies' half-year forecast, presented in November last year, pointed towards a much stronger Q4–Q1 period (index of 111). This is now looking difficult to achieve. The companies' new half-year forecast of an index of 105 appears to be more realistic.

Signs that the economic situation has changed are indicated by the areas of IKEM that are most sensitive to the business cycle: the chemicals, rubber and plastics

industries. In Q4, these are already deviating from the IKEM average, with slightly declining export volumes (index of 99). This compares with a relatively small volume increase in Q3, expressed as an index of 104. In other words, the growth in export volume in Q4 is primarily linked to Swedish oil and refinery operations, which are going strong.

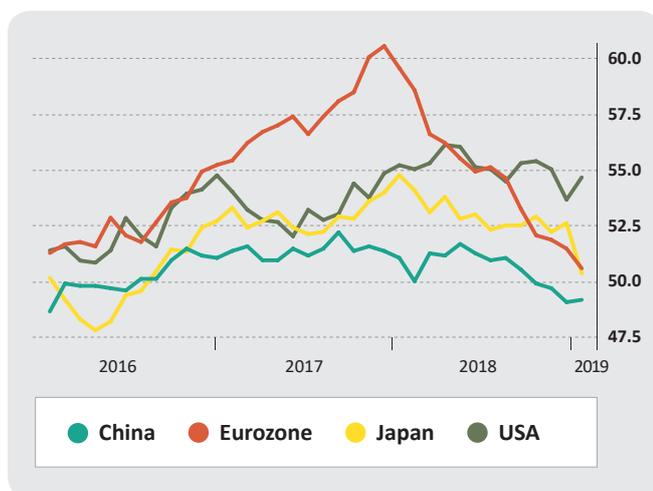
## BROAD CONSENSUS ON ECONOMIC SLOWDOWN

Judging by various leading indicators, the economies of key export countries are slowing down (see Figure 2). The German IFO index pointed steeply downwards during the autumn and recorded a level of just below 100 in January (an index of 100 indicates declining growth). The worsening of growth prospects can also be seen in the lowering of economic expectations among the leading global economic institutions, most recently by the IMF. They have gradually dampened their global expectations over the past year and January's reduction of 0.2 percentage points means they are now forecasting global growth of 3.5 per cent for 2019. In particular, they expect a slowing of the growth rate of the eurozone, with Germany at the forefront.

For the IKEM companies, which have a share of exports of 85 per cent, this naturally means reduced opportunities to surpass the sales volumes of recent years. This is particularly true of the two industries that are the most sensitive to the business cycle: chemicals and rubber/plastics. The companies' new half-year forecast of an index of 105 still demonstrates a certain amount of optimism, as it represents an expectation of growth that is slightly above the first half of last year.

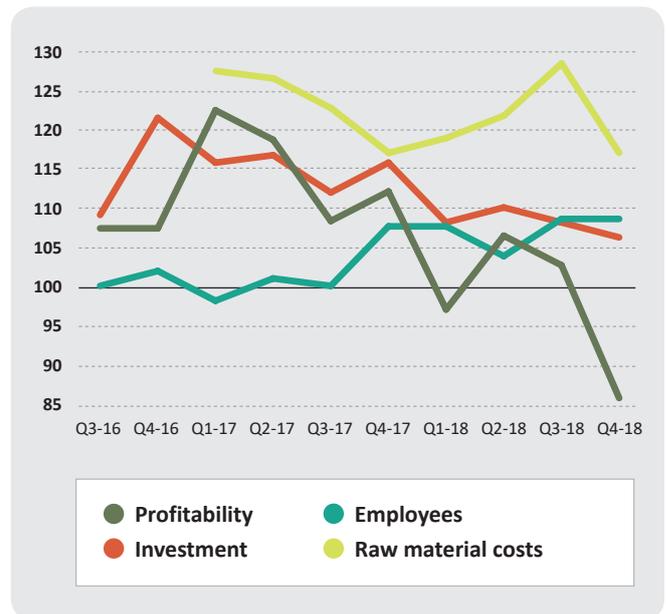
**FIGURE 2. PURCHASING MANAGERS' INDEX OF LEADING INDUSTRIALISED COUNTRIES/CURRENCY AREAS. AN INDEX FIGURE ABOVE 50 INDICATES EXPECTATIONS OF GROWTH.**

Source: Macrobond



**FIGURE 3. IKEM INDEX OF PROFITABILITY, EMPLOYEES, INVESTMENT AND RAW MATERIAL COSTS.**

Source: IKEM



## INCREASED COSTS AND LOWER PROFITABILITY

Sustained increases in the cost of raw materials, measured at an index of 117 for Q4, are reflected in a falling profitability trend during the quarter (Figure 3). An index of 84 represents a substantial setback for the profitability trend. A generally more cautious market trend on the most important Swedish export markets also provides little scope for increasing delivery prices. To bring profitability back up to earlier levels, a fall in the prices of raw materials/input goods is therefore required in the short term.

The price trend for crude oil is a good yardstick for measuring the development of a large proportion of the purchase prices of the IKEM companies. The price of crude oil plummeted on the global market in late autumn, but it was only towards the end of November that the cost fell below that of the corresponding period in the preceding year. During early 2019, the price of crude oil began to rise again, having bottomed out at USD 51 per barrel at the end of December. The cost level remains low compared with early 2018 however (Figure 4). A global economic slowdown reduces the likelihood of a return to last year's peaks of around USD 86 per barrel. Overall, the IKEM companies' costs for raw materials/input goods should therefore not increase in 2019 as steeply as they did in 2018. In fact, they look set to fall slightly, with the reservation that crude oil prices are very difficult to predict.

FIGURE 4. SPOT PRICE TREND FOR CRUDE OIL.  
USD/BARREL.

Source: Macrobond



## POSITIVE EMPLOYMENT TREND

Employment at the IKEM companies continued to show strong growth for the fifth quarter in a row. The index of 109 for Q4 was the same as in Q3. For 2018 as a whole, the IKEM companies report an increase in employment of 2 per cent. Applied across the entire IKEM industry, this means that the number of people employed last year increased by approximately 800.

Given the companies' often-reported difficulties in finding the right skills, it is interesting to see such a clear increase in employment. At the same time, it is reasonable to assume that the underlying recruitment need has been greater still.

In the wake of the financial crisis, the employment trend was clearly negative within the IKEM industries, just as it was in the rest of the Swedish manufacturing industry. Combined with the positive employment trends of 2016 and 2017, this means that 2018 marks a definitive turning point in the unemployment trend. As the IKEM companies now enter a more cautious economic period, where increasing the number of employees is not a given, this may nevertheless mean greater opportunities for the companies to find the very skills they are looking for.

The strong economy over the past 3 to 4 years is also reflected in a capacity utilisation figure for the past two or three quarters that is up around 90 per cent. These levels are on a par with the rest of the manufacturing industry. A sustained high level of capacity utilisation puts pressure on the companies' ability to increase productivity, as flexibility in the use of production resources is reduced. During Q4, 89 per cent of the companies reported that their productivity was either unchanged or had fallen compared with the same period in 2017. Increased investment (Figure 3) among the companies, combined with new recruitment, leads to increased production capacity in the long run, providing the opportunity for improvements in productivity.

## TOPIC

# Hard Brexit – are the chemicals companies prepared?

A hard Brexit means, by definition, that WTO rules will begin to apply to exports to the UK, with all the paperwork and customs duties this involves. The assessment is that this will mean a great deal of confusion during a transitional phase, as companies and authorities on both sides of the Channel begin to apply new regulations.

The date of the United Kingdom's departure from the EU is fast approaching and as yet there is no agreement in place for an orderly withdrawal. We therefore asked the companies if they have made preparations for a hard Brexit and if so, what preparations they have made.

## THE UK IS AN IMPORTANT EXPORT MARKET – BOTH DIRECTLY AND INDIRECTLY

The IKEM companies' exports accounted for almost a quarter of total Swedish exports to the UK during the period Jan–Nov 2018. The value of these exports was SEK 19 billion. The UK therefore accounted for almost 7 per cent of the IKEM companies' total exports during Jan–Nov 2018. The corresponding share of other goods exports during the same period was 4.4 per cent.

Dependence on exports to the UK varies quite widely, however, between the oil and petroleum industry and the chemicals, pharmaceuticals and rubber/plastics industries. Oil and petroleum recorded an export share of 13 per cent during Jan–Nov 2018. This nevertheless represents a fall from just over 18 per cent for 2017 as a whole. The other IKEM industries were all at or just below the average for other Swedish goods exports to the UK.

It may also be worth pointing out that exports to the UK account for a much larger share, 8 per cent, for the EU as a whole. This in turn means an indirect export dependence on the UK for Swedish industrial companies.

Approximately 50% of the IKEM companies' exports go to other EU countries. Products which are often used as inputs for other industrial production, with onward export to the UK. The complex trade flows that dominate today's global value chains consequently make it extremely difficult to gain an overview of the overall Swedish dependence on free trade between Sweden/the EU and the United Kingdom. For this reason, the impact of a hard Brexit is likely to be felt by more than just those IKEM companies that have direct exports to the UK.

**TABLE 1. IS YOUR COMPANY PREPARING FOR A HARD BREXIT? ANSWERS WEIGHTED ACCORDING TO TURN-OVER.**

Source: IKEM

	YES	NO
Weighted	91	8
Unweighted	38	62

**TABLE 2. HOW IS YOUR COMPANY PREPARING FOR A HARD BREXIT? WEIGHTED ANSWERS.**

Source: IKEM

Moving production from Sweden to own production facilities in the UK	1%
Using British subcontractors	0%
Preparing for the additional paperwork and costs that will be required in the event of a hard Brexit	40%
Reviewed all long-term contracts with customers in the UK	30%
Investigating which new product requirements may apply in a United Kingdom without a trade agreement	33%
Secured expertise in customs matters	23%
Analysed different transport options to the UK	36%
Other	63%

## MAJOR EXPORTERS ARE PLANNING FOR A HARD BREXIT

The question, then, is how the IKEM companies (50 per cent, unweighted, of the respondents export to the UK) are preparing for a worst-case scenario with a hard Brexit? The amount of preparation/resources for different Brexit outcomes that companies are prepared to put in depends on the importance of the UK as an export market and the administrative resources available in-house in the form of specialist expertise. The larger companies generally report a relatively large degree of preparation. Taking into account the turnover of the companies (weighted), a significant majority of 91 per cent (Table 1) of the companies report that they have prepared in various ways for a hard Brexit. Unweighted, however, just over 60 of the companies say that they have not taken any steps for the event that the UK crashes out without a deal. This is either because they do not consider the market to be large enough or because they would rather wait and see what happens.

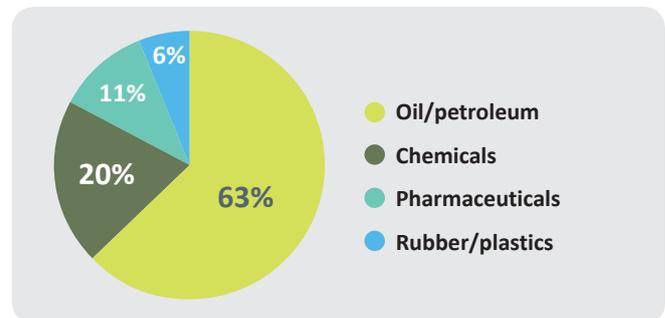
The companies that have implemented various measures in order to be as prepared as possible for a hard Brexit have looked at things such as the paperwork that will probably be required for exports (40 per cent, weighted). A third have

investigated which new product requirements may apply in a United Kingdom without a trade agreement. A quarter have secured expertise in customs matters. Around a third have reviewed all their long-term contracts with customers in the UK. Just over a third have investigated different transport options. The largest share, however, comes under the heading "Other". These are measures which are company-specific in various ways.

Despite the question marks surrounding the future conditions for exports to the UK in the event of a hard Brexit, a large proportion (69%) of the companies believe that exports to the country over the next few years will remain at current levels or increase slightly. The remaining third or so of the companies, on the other hand, expect to see a decline in exports under such circumstances.

**FIGURE 5. THE IKEM COMPANIES' EXPORTS TO THE UNITED KINGDOM JAN–NOV 2018 DIVIDED BY SECTOR. TOTAL VALUE OF EXPORTS: SEK 18.7 BILLION.**

Source: Statistics Sweden



IKEM's member companies operate across a broad range in the production of plastics, rubber, chemicals and pharmaceuticals. The total value added by the industry represents almost one-fifth of total industrial production in Sweden. The value of exports was SEK 270 billion in 2017. Unless otherwise indicated, all the responses reported from the economic survey are weighted according to the company's turnover. The economic summary is reported every quarter.



*If you have any questions, please contact:*  
 Carl Eckerdal, Chief Economist  
 070-497 11 98  
 carl.eckerdal@ikem.se

# IKEM

Innovation and Chemical Industries in Sweden  
*Innovations- och kemiindustrierna i Sverige*  
 Box 55915 | SE 102 16 Stockholm | Sweden  
[www.ikem.se](http://www.ikem.se)