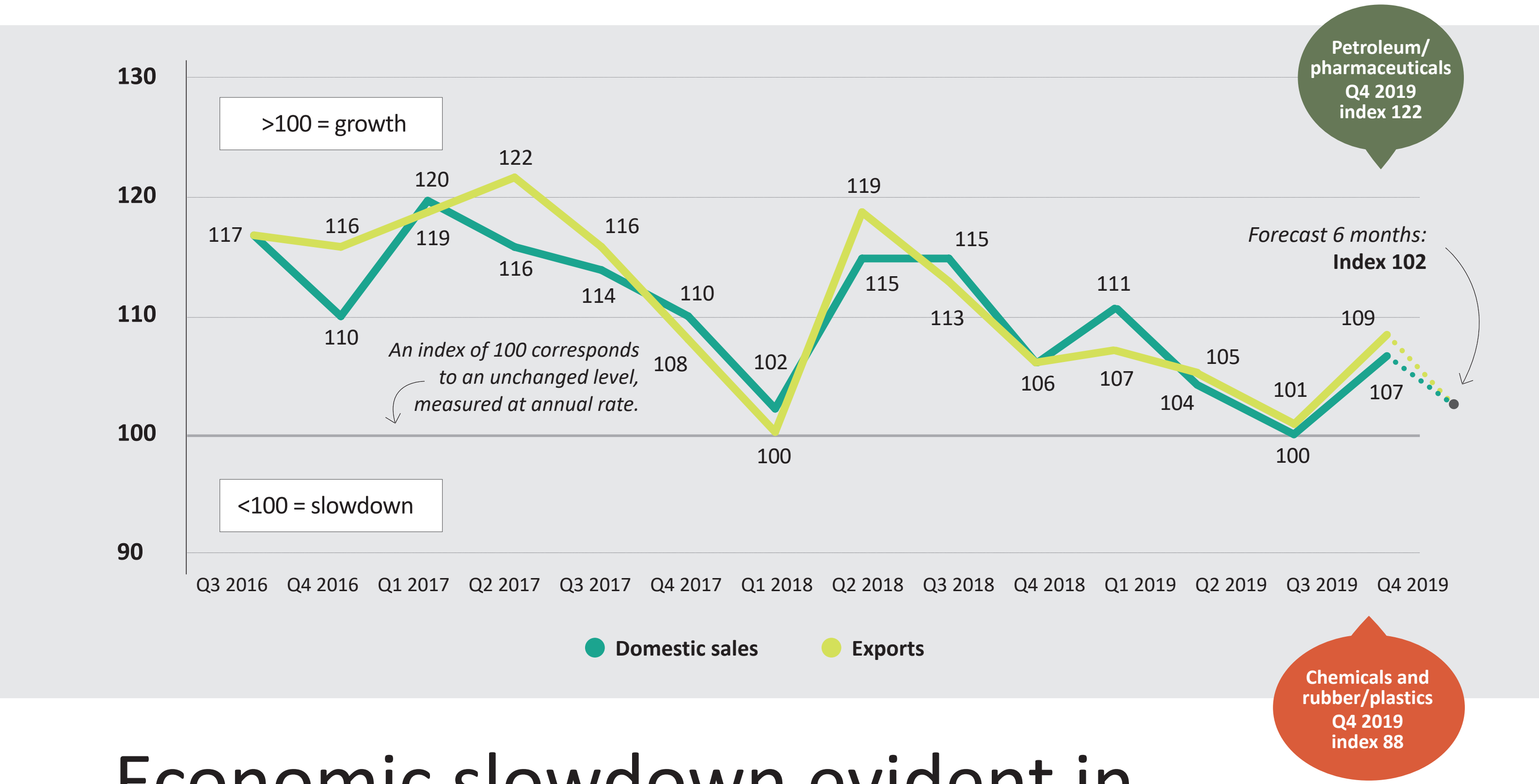
FEBRUARY 2020

Economic summary

FIGURE 1. **IKEM INDEX FOR THE PERIOD Q3 2016–Q4 2019 FOR DOMESTIC SALES AND EXPORTS. AN INDEX VALUE BELOW 100 INDICATES A SLOWDOWN (CONTRACTION) IN VOLUME.**

Source: IKEM



Economic slowdown evident in the IKEM industries of chemicals and plastics/rubber

There were significant differences in performance between IKEM's subsectors of refinery, chemicals, pharmaceuticals and plastics/rubber production in Q4 2019. Chemicals and rubber/plastics dropped sharply on the export market (in terms of volume) while refinery and pharmaceuticals stayed the same or increased strongly. These differences can be explained how dependent the different sectors of industry are on the economic cycle. The number of employees in refinery and pharmaceuticals increased during the quarter, while falling slightly in chemicals and rubber/plastics. This leaves the overall workforce more or less unchanged. All subsectors report that finding the right skills remains a challenge.

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Overall, the final quarter of 2019 brought some growth in export volumes for the one-fifth of Swedish industry that consists of refinery, chemicals, pharmaceuticals and rubber/plastics. Behind the figures, however, there are crucial differences between the various subsectors. Chemicals and rubber/plastics dropped sharply on the export market (in terms of volume) while refinery and pharmaceuticals stayed the same or increased strongly.

The Q4 export index was 88 for chemicals and rubber/plastics, well below the index of 100 that represents the dividing line between growth and slowdown. The loss of volume within chemicals and rubber/plastics is a reflection of how cyclical these sectors are. The slowdown within European industry, led by Germany, is taking its toll on exports of Swedish chemicals and plastics/rubber. Swedish pharmaceuticals exports, on the other hand, are enjoying considerable success. The pharmaceuticals industry is largely independent of the global economy, so the fact that the Swedish pharmaceuticals industry is thriving is evidence instead that Swedish companies have an attractive portfolio and that there is strong global demand. This only confirms the unusually large difference in operating conditions experienced by IKEM's subsectors at the moment.

CONTINUED SLOWDOWN

The global economy has been experiencing a slowdown since autumn 2018, something which is reflected in the IKEM index over time (Figure 1). Various leading indicators globally are currently pointing to the slowdown bottoming out this year, followed by a slight upturn in 2021. However, most of the leading forecasting institutions are painting a relatively fragile economic picture. The latest IMF forecast, for example, predicts that the eurozone's GDP will grow by 1.3% in 2020 and by 1.4% in 2021.

Whatever the view on the predictions regarding global/regional growth, the paralysis of the Chinese economy caused by the coronavirus cannot be completely ignored. The prolonged stoppage to production that the virus has caused in large parts of the country, following the Chinese New Year celebrations, risks putting a temporary brake on industrial production in the rest of the world. Given that today's industrial value chain is increasingly interconnected globally, it is inevitable that large-scale disruptions to production in a key economy such as China will have a knock-on effect on the rest of the world.

If the virus epidemic takes hold in China for a relatively long time and if the virus begins to mutate and/or spread to other countries on a large scale – then the economic upturn will at worst be postponed, although current thinking is that the coronavirus will not really have any lasting impact on the economy.

NO GROWTH IN SIGHT

The production forecast provided by the IKEM companies for the next six months is a cautious one. This is despite benefiting from being made before any awareness of the extent of the coronavirus. Overall, the companies do not see any growth in sight during the first half of 2020, expressed as an index of 102. Interestingly, there is no difference between the forecasts of the subsectors: both main groups – refinery and pharmaceuticals vs. chemicals and rubber/plastics – report an index of 102.

From a purely IKEM perspective, direct dependence on imports of raw materials/input goods from China is extremely marginal and so it does not appear that this will lead to any disruption to Swedish production. The value of imports (industry-related) within the IKEM industries is approximately SEK 5 billion for 2019 (IKEM forecast). This compares with the value of Swedish exports to China from the corresponding industries of just over SEK 23 billion (IKEM forecast), with the main export product being pharmaceuticals (77%).

Local difficulties regarding the distribution of pharmaceuticals in the country are the major risk from a Swedish export perspective. The share of IKEM exports in terms of raw materials/input goods for further processing in China is very limited, however, and therefore so is the risk of the chemicals exporters feeling the effects of declining exports to the country. Indirectly, however, demand for Swedish-made raw materials/input goods may suffer if major industrial customers in Europe are forced to cut back their production rates as a result of disruptions to deliveries to China.

FINDING THE RIGHT WORKERS IS A CHALLENGE

The number of employees increased in Q4 for IKEM as a whole. This is a direct effect of the expansion of the workforce within

TABLE 1. **DOES THE COMPANY EXPERIENCE ANY DIFFICULTY IN RECRUITING WITHIN THESE PROFESSIONS?**
Source: IKEM

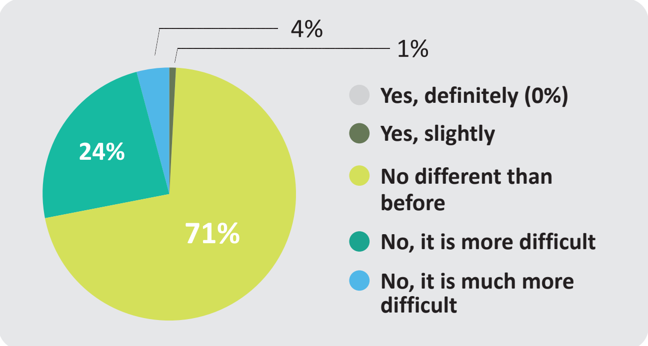
	Process operators	Technicians	Engineers	Chemists	IT/programming	Other employees
No difficulty	32%	52%	36%	38%	66%	75%
Some difficulty	65%	29%	45%	46%	32%	24%
Major difficulty	3%	19%	19%	16%	3%	1%
Total "difficulty"	68%	48%	64%	62%	34%	25%

refinery and pharmaceuticals, while chemicals and rubber/plastics cut the number of employees during the quarter, all as a result of the same cyclical logic as described above. The forecast for the number of employees over the next six months is for it to remain more or less unchanged for IKEM as a whole. No significant differences can be identified in the staffing forecast for the different subsectors.

Filling vacancies remains a challenge for the IKEM companies as a whole, however. The noticeable slowdown in Swedish industrial production has not yet resulted in a greater supply of qualified jobseekers on the Swedish labour market. At least not from a strictly IKEM perspective, where a majority of member companies believe that there has been no change over the past year in terms of how easy or difficult it is to find sought-after skills (Figure 2). In fact, just over a quarter of the companies say that recruitment processes have become even more difficult than a year ago. Process operators, chemists and engineers are all professions that the companies are experiencing problems finding. One-fifth of the companies say that it is also very difficult finding technicians and engineers. Staff are somewhat easier to find in the groups “other employees” and “IT/programmers”, (Table 1).

FIGURE 2. **DOES THE COMPANY FEEL, OVERALL, THAT IT HAS BECOME EASIER OVER THE PAST YEAR FOR THE COMPANY TO FIND SOUGHT-AFTER SKILLS?**

Source: IKEM



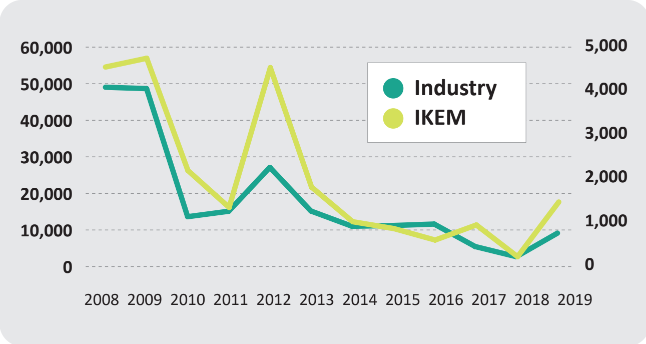
The number of redundancy notices in the IKEM industries increased significantly in 2019, but this was from extremely low levels in 2018 (Figure 3). The IKEM index broken down by subsector shows that it is in chemicals and plastics/rubber that the number of redundancy notices has increased and also had an effect in the form of a slight fall in the number of employees in Q4.

Provided that the economic downturn does not spring any major surprises, it would appear that today’s slightly higher levels of redundancy notices, compared with a year ago, can be handled by much of the skills concerned being able to move to other employers within the IKEM sphere.

The cost trend for the purchase of raw materials/input goods levelled off in 2019, judging by the IKEM index. This trend is

FIGURE 3. **ANNUAL NUMBER OF REDUNDANCY NOTICES IN THE IKEM INDUSTRIES (RIGHT AXIS) AND INDUSTRY AS A WHOLE (LEFT AXIS).**

Source: Swedish Public Employment Service



strongly linked to the trend for crude oil prices on the global market (Figure 4). Despite the ambition to switch to bio-based raw materials, oil is still used, refined to varying extents, in large parts of the IKEM industries’ production. According to the responses to the economic survey, the price of oil has an absolutely crucial or extremely significant influence on the cost trend at almost half of the companies. For a majority of the companies, therefore, changing world prices for crude oil are clearly hitting the cost base. The proportion of companies reporting significantly weaker “oil cost pressure” is 42%. Most forecasts currently indicate that oil prices will rise to USD 60–70 over the next few years as the global economy changes direction.

TABLE 2. **HOW MUCH INFLUENCE DOES THE WORLD MARKET PRICE FOR CRUDE OIL HAVE ON YOUR COMPANY’S COSTS FOR PURCHASING INPUT GOODS/RAW MATERIALS?**

Multiple responses possible. Source: IKEM

Absolutely crucial influence	31%
Extremely significant influence	15%
Significant influence	13%
Some influence	35%
Little influence	7%

DECLINING PRODUCTIVITY GROWTH

The fact that a large proportion of the IKEM industries are experiencing a slowdown can also be seen in the development of the companies’ productivity (labour productivity) over time. IKEM’s own time series is limited to three years and 12 quarterly observations. It is clear to see (Figure 5) that the net positive figure in relation to productivity has experienced a clear downwards trend

FIGURE 4. **IKEM INDEX (RIGHT AXIS, WHERE 100 CORRESPONDS TO UNCHANGED TREND AT ANNUAL RATE) OF THE COST TREND FOR INPUT GOODS/ RAW MATERIALS AND THE PERCENTAGE TREND FOR CRUDE OIL IN USD (%, LEFT AXIS).**

Source: IKEM and Macrobond

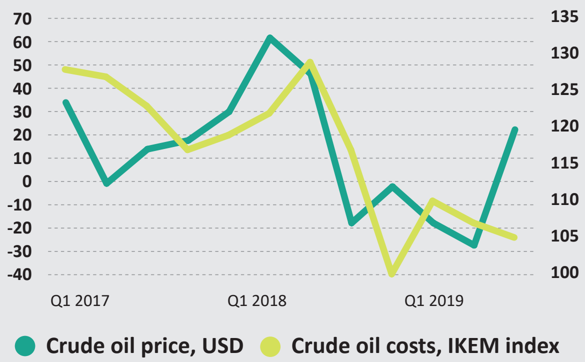
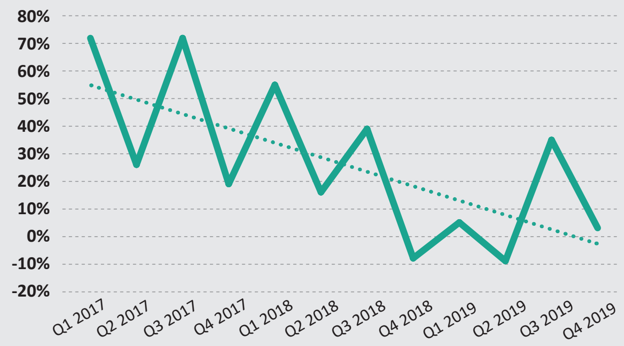


FIGURE 5. **PRODUCTIVITY TREND AMONG THE IKEM COMPANIES.**

Net total = percentage of companies that indicated varying degrees of productivity improvement less the percentage of companies that indicated varying degrees of declining productivity.

Source: IKEM



over the period (net positive = proportion stating that productivity "increased" or "increased significantly" less the proportion stating that it "decreased" or "decreased significantly").

It is not possible to say with any certainty, of course, what has prompted this declining trend in the proportion of companies reporting improved productivity. It is likely, however, that it is linked in part to the declining economic situation. It should also be noted, however, that even with prolonged economic booms and high resource utilisation, labour productivity declines and then loses further ground in the event of an economic downturn. The economy has already peaked for all the IKEM industries, however, with the exception of pharmaceuticals. The economic slowdown therefore appears to be a significant explanatory variable in terms of the loss of productivity in recent years. Going forward, it is also difficult to see how labour productivity could begin to increase again, given the cautious growth forecasts the companies are predicting.

IKEM COMPANIES NOT WORRIED BY BREXIT

Brexit is now a fact; the United Kingdom has left the EU. Under the withdrawal agreement, the parties have now entered a transitional phase, which largely means "business as usual". At the same time, negotiations are under way to establish the future relationship between the trading partners. It is of considerable interest to Sweden in particular that a future trade agreement between the UK and the EU does not involve expensive trade barriers of any kind.

The United Kingdom is an important export market for the IKEM companies. Of total Swedish exports of goods in the period from January to November 2019, over one-fifth (23%) were IKEM exports. The UK was a key export customer for the oil and petroleum industry, accounting for 11.7% of the total value of exports during the period. This nevertheless represented a fall of one percentage point compared with the same period in 2018.

For other IKEM industries – chemicals, pharmaceuticals and rubber/plastics – the UK's share of exports was significantly lower at 3.5%–4.3%. It was also clearly lower than the share of total Swedish goods exports of 5.5%.

So how do the IKEM companies think Brexit will affect their trade with the UK over the next few years? The fact is that a convincing majority (97%) are neither getting their hopes up nor feeling pessimistic about the possibility of increasing their exports to the country. Instead, they are expecting export volumes to the UK to remain unchanged in the years to come. Given that the export forecast is generally cautious at the moment, the Brexit effect appears to be relatively limited as an explanatory variable. These are also the signals sent by the IKEM companies in previous economic surveys, where it has been established that the companies have not been particularly concerned about the negative trade effects of Brexit.

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 307 billion in 2018. 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.

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