

ECONOMIC SUMMARY

FIGURE 1. IKEM INDEX FOR THE PERIOD Q3 2016–Q4 2020 FOR DOMESTIC SALES AND EXPORTS. AN INDEX VALUE BELOW 100 INDICATES A SLOWDOWN (CONTRACTION) IN VOLUME.

Source: IKEM



Customer demand and the demands of employees driving sustainable transition

The tumultuous pandemic year of 2020 is now behind us. There was initially a severe negative impact on the one-fifth of Swedish industry that consists of chemical-related production, pharmaceuticals, chemicals, plastics and rubber and refineries. During Q4, however, they managed to return to pre-crisis production levels (at annual rate). As the EU is now increasing its green transition budget in order to alleviate the crisis, IKEM can report that for the chemical industry, the transition to sustainable production is largely being driven by customer demand and the demands of new and existing employees.

During the first half of 2020, it was the chemicals and plastics and rubber subsectors within the IKEM sphere that suffered the greatest negative impact of economies closing down around the world. Conversely, as the pace of global recovery now picks up, it is these subsectors that have shown the most rapid production growth, at rates considerably faster than the pharmaceuticals industry and refineries.

For the chemical industry as a whole (including pharmaceuticals and refineries), the fourth quarter of 2020 showed a slight increase in volumes sold, both on the domestic market and on the vital export market, with respective indices

of 101 and 102 (an index value of 100 corresponds to an unchanged level, measured at annual rate).

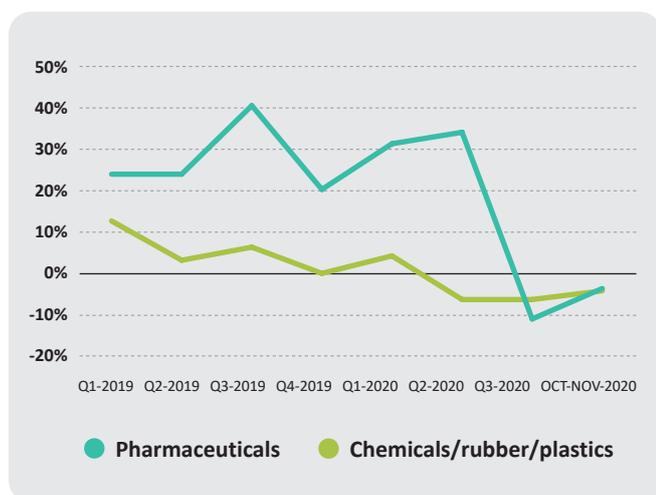
Broken down, the index for the quarter for chemicals, plastics and rubber was 106 and for pharmaceuticals and refineries was 99. This means that chemicals, plastics and rubber actually managed to exceed their 2019 production volumes, while pharmaceuticals/refineries remained more or less unchanged.

This aligns well with the picture provided by the official Swedish export statistics. According to these, the pharmaceuticals industry experienced a strong first half of 2020, while the trend during the second half of the year was negative (July–November).

The weak performance of the pharmaceuticals industry during the second half of the year is probably explained to a degree by strong comparison figures from the second half of 2019. During that period, exports increased by as much as 31% (at annual rate). Well-stocked medicine cabinets around the world may also have reduced demand temporarily for the Swedish-produced pharmaceuticals portfolio.

FIGURE 2. EXPORT TREND (VALUE) FOR PHARMACEUTICALS AND CHEMICALS/RUBBER/PLASTICS, Q1 2019 TO NOV 2020.

Source: Statistics Sweden, SPIN



RISING RAW MATERIALS PRICES REDUCE PROFITABILITY

The relatively rapid recovery in the global economy brings increased cost pressure on key raw materials/input goods for the chemicals industry, as well as for transport and other business services. The index (96) nevertheless shows that the costs for the IKEM companies as a whole were still slightly lower than during the corresponding period of 2019. A stronger SEK since the end of March 2020 has also mitigated some of the price increases for the raw materials used in the Swedish chemical industry that are priced internationally.

Compared with the clear fall in costs in the second quarter, however, there is an equally clear return to cost inflation for input goods for the chemical industry. Continued cost increases are therefore in store for the near future. At the same time, the global market is not yet prepared to accept any major price increases from the producers/suppliers of refined industrial products. This may partially explain why profitability within IKEM as a whole did not exceed last year's level during the fourth quarter – despite a recovery in volume and strong demand.

GROWTH WITHIN THE PHARMACEUTICALS INDUSTRY HAS STALLED

Given the predictions as recently as the middle of last year of a very deep decline in the global economy during 2020, comfort can now be taken from the fact that the decline is actually “only” 3.5% (IMF). In Sweden, as in the rest of the world, domestic service industries are those hardest hit. There is a stark contrast here with global industrial production, which nosedived but then also recovered rapidly.

Global trade has also begun to grow again, having dropped 20% in volume in some months (at annual rate) at the start of the pandemic. Although the second wave of the pandemic and delayed deliveries of vaccine have thrown a spanner in the works for growth, the general outlook for 2021 is that there is still a roadmap for accelerating economic growth. The IMF, for example, is predicting global growth of 5.5% this year.

The IKEM companies' production forecast for the first half of 2021 clearly shows that the biggest increase is expected

TABLE 1. IKEM INDEX OUTCOME FOR Q4. IKEM OVERALL AND DIVIDED INTO CHEMICALS/RUBBER/PLASTICS AND PHARMACEUTICALS/REFINERIES. FORECAST FOR 1H 2021. Source: IKEM

	Q4 2020						Forecast 1H 2021	
	Domestic	Exports	Employees	Investment	Purchasing costs	Operating profit	Production (volume)	Employees
Chemicals/rubber/plastics	101	106	102	102	99	96	116	106
Pharmaceuticals/refineries	101	99	110	101	92	101	106	97
Total	101	102	106	101	95	99	111	102

by the most cyclical companies, the chemical, plastics and rubber industries. The forecast production is at index 116, which indicates significant growth for the period. The corresponding index for pharmaceuticals and refineries is at 106, which also indicates growth, although at more modest levels. This may be because the pharmaceuticals industry is being compared with very challenging production volumes from the first half of 2020. During that period, the value of exports increased by 35%. Against this background, even a low level of growth within the pharmaceuticals industry represents an achievement.

During the worst phase of the pandemic (Q2 and Q3), the IKEM companies reduced their level of investment dramatically (at annual rate). In IKEM's economic survey for Q3, 53% of the companies reported that they had postponed some of their investments due to the pandemic. This was partly the result of disruption to the global value chains at the beginning of the pandemic. The uncertainty alone about the direction the global crisis would take us was also reason enough for the companies to pause investments they had already planned. In the economic survey for Q3 2020, 53% of the companies reported that they had postponed some of their investments due to the pandemic. The Q4 results indicate that the companies have now begun to invest again, with the index showing a slight increase in investment compared with Q4 2019. At the same time, there should be a great underlying need to further accelerate the pace of investment, given the earlier postponement of investments. This is also necessary in order to make the transition to more sustainable production. At an overall international level, it is exactly this kind of investment logic that is driving underlying growth.

ONGOING SKILLS SHORTAGE

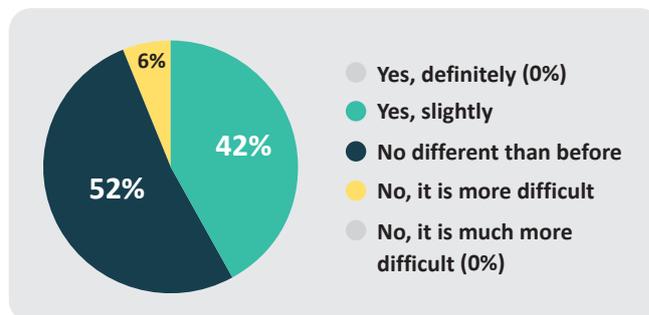
The pandemic year of 2020 has not resulted in reductions in the workforce within the Swedish chemical-related industry, although some companies have taken advantage of the opportunities for short-time working. As soon as production has returned to normal, however, these companies have returned to full staffing levels. On average, the number of employees within the Swedish chemical industry increased by 1% in 2020 (compared with 2019).

Has the high unemployment situation on the labour market made it easier for the IKEM companies to find the skills they need?

A relatively large proportion, 42% of the companies, felt that it had become slightly easier. The majority of the companies, however, do not feel that it has become any easier. This is probably because supply of the type of specialist expertise sought by the IKEM companies is very limited and because suitable candidates have only changed jobs in exceptional cases for cyclical reasons. It is likely, therefore, that those IKEM companies wishing to expand and/or replace retiring staff will continue to face the challenges of the general skills shortage in society.

FIGURE 3. DOES THE COMPANY FEEL, OVERALL, THAT IT HAS BECOME EASIER OVER THE PAST YEAR FOR THE COMPANY TO FIND THE SKILLS IT REQUIRES?

Source: IKEM



COMPANIES ENGAGED IN SUSTAINABLE TRANSITION

The chemical-related industry is providing many solutions that will make the world more sustainable, from an environmental, social and economic perspective. These range from batteries and solar cells to pharmaceuticals and reduced energy consumption. There is also a clear requirement, however, for the manufacturing processes, raw materials and products themselves to be made more sustainable. The companies are well aware of this need. When asked about their sustainability work, a good 85% said that sustainability issues had moved even higher up their company's agenda over the past year.

So how does Swedish industry compare internationally in terms of making the transition to sustainable production? Favourably, according to the companies themselves. A good 88% believe they are ahead or a long way ahead of their competitors.

CLIMATE A KEY SUSTAINABILITY ISSUE

Climate-smart production is high on the agenda for the chemical industry. This not only involves switching to carbon-neutral production (84%), but also using climate-neutral raw materials (44%).

Engagement in sustainability issues is much broader than this, however. The social sustainability of subcontractors and their suppliers is mentioned by over half the companies (54%) as an aspect of sustainability, while just under half say that through their production they want to help increase the sustainability of their customers (49%).

We can also report that the vast majority (78%) have carried out planned investments that will lead to more sustainable production. However, a smaller proportion of the companies (16%) still report that investments have been postponed to a point further in the future. Investments have been brought forward at 5% of the companies.

TABLE 2. IN RELATION TO YOUR COMPANY'S FOREIGN COMPETITORS, HOW FAR HAS YOUR COMPANY COME ON THE ROAD TOWARDS MORE SUSTAINABLE PRODUCTION USING THE TECHNOLOGY AND KNOWLEDGE AVAILABLE TODAY. THE COMPANY IS:

Source: IKEM

A long way behind its competitors	0%
Behind its competitors	1%
At the same level as its competitors	10%
Ahead of its competitors	85%
A long way ahead of its competitors	3%
Don't know	1%

TABLE 3. WHICH ASPECTS DOES YOUR COMPANY CONSIDER TO BE PART OF THE CONCEPT OF "SUSTAINABLE PRODUCTION"? (MULTIPLE ANSWERS POSSIBLE, WEIGHTED)

Source: IKEM

Carbon-neutral production	84%
Carbon-neutral raw materials	44%
Enabling greater sustainability for the customer	49%
Social sustainability of subcontractors and their subcontractors	54%
Economic sustainability	33%
Other environmental factors	37%
Other	5%

In addition to the companies' own factors driving the transition in production, there is also pressure from other sources. The most important of these are increased pressure from customers and employees, as well as the ability to attract new employees. The requirements of the authorities and legislators and funding sources are also important, but are not quite as strong driving forces. This inspires hope in that transition means developing new solutions, which requires cooperation between customers, suppliers and staff. The fact that the driving force from these quarters is so strong shows that the dialogue is in full flow within the value chains.

All in all, the survey indicates that there is the desire and the drive for a transition to more sustainable production among the Swedish chemical companies. We can also see that the industry in Sweden is in a strong position compared

with its competitors. This is good, but it is a position that needs to be maintained. We already know that there are challenges such as slow environmental permit processes, skills shortages and an inadequate supply of electricity at competitive prices for electrification.

We also know that the investments needed for sustainable production are extremely large in size and that this means higher prices for customers. To give the companies the courage to make these investments, EU measures are therefore needed that prevent customers from buying their products from other places around the world that have less stringent requirements.

As we now enter a period of major support from the EU for sustainable production, the Swedish government also needs to ensure that Swedish production facilities are able to compete on equal terms with those in other countries. Otherwise, Sweden risks losing its advantage.

TABLE 4. WHAT ARE THE MAIN FORCES DRIVING THE COMPANY'S TRANSITION TO MORE SUSTAINABLE PRODUCTION? (MULTIPLE ANSWERS POSSIBLE, WEIGHTED)

Source: IKEM

Requirements of the authorities and legislators	36%
Demands of employees to be at the forefront	43%
Greater ability to attract new employees	55%
Increased pressure from customers	59%
Increased pressure from funding sources	30%
Increased profitability	25%

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 325 billion in 2019. 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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