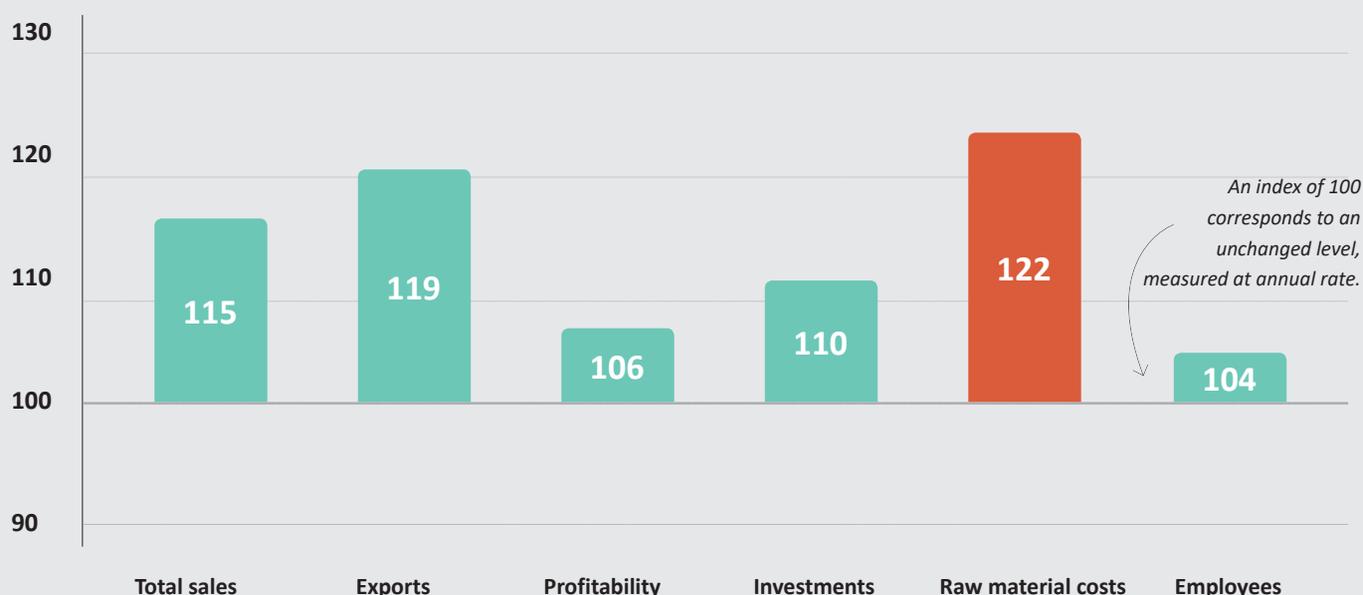


SEPTEMBER 2018

Economic summary

INDEX OF IKEM COMPANIES' DEVELOPMENT DURING Q2 2018 AT ANNUAL RATE.
INDEX VALUES OVER 100 INDICATE AN INCREASE.

Source: IKEM's economic survey



Renewed growth for IKEM companies in Q2

The positive trend experienced by the chemical and innovation industries in 2017 was paused during the first quarter of the year, but growth returned in Q2. This means that the economy has not yet turned for the one-fifth of Swedish industry, the broad spectrum of Swedish refineries, chemicals, pharmaceuticals and plastics and rubber industries, that IKEM represents. Export-centred IKEM companies (where 85 per cent of production is exported) did not experience any of the lull that prevailed in Q1. These companies benefited from a strong global economy, where high capacity utilisation is increasing the demand for investment.

The IKEM export trend INDEX (measured in terms of volume) correlates well with the official statistics on the change in value over the period. Statistics Sweden's data shows, however, that there is a relatively large spread in the increase in the value of exports. ►

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Refineries and the rubber and plastics industry are showing the fastest growth (38 and 11 per cent respectively in Q2, at annual rate). One significant reason for the strong increase in value for refineries may be the higher price of crude oil. Pharmaceuticals and chemical-related exports recorded more conservative rates of increase during the period (3 and 4 per cent respectively). In the IKEM survey, 50 per cent (unweighted) of companies reported that export volumes were increasing, of which 25% of companies indicated that they were increasing strongly.

RAPID GROWTH IN NON-EU TRADE

Swedish IKEM-related exports are strongly focused on the EU, with a market share of over 60 per cent. However, it was outside the EU market that Swedish IKEM exports grew fastest during the first half of the year. Norway and China are two of the countries that have increased the most in significance as export destinations in recent years. During the first six months of the year, exports to these two markets increased strongly for all IKEM industries. Together, they now account for almost one-fifth of chemical-related exports. China is increasingly becoming a key market for Swedish pharmaceuticals exports, with the market share now around 20 per cent. The pharmaceuticals industry doubled the value of its exports to China during the first quarter of the year. Q2 saw more tentative growth, mainly as the result of a strong comparison quarter in 2017.

LATE-CYCLE ECONOMY

The economy in the “industrialised” world is in a late-cycle phase characterised by consumption-led, investment-driven growth. This phase is considered by many to be the peak of a longer-term economic upturn. At the same time, several analysts have pushed back the anticipated beginning of the economic slowdown. The IMF, for example, estimates that 2019 will see continued stable growth in the developed economies, albeit at slightly lower levels than for the current year.

There is, however, no shortage of threats and potential “triggers” to bring about or hasten a trend of generally lower growth. President Trump is doing his best to disrupt the liberal global trade order negotiated over several decades, with unpredictability his weapon of choice. Brexit negotiations are entering their final phase, with the results still as yet unknown. Iran and Turkey are in conflict with the USA and the outcome is far from certain. In Europe, Italy is once again the focus of attention following an intentional breach of the EU’s budget discipline rules, with the risk of a further increase in debt. The global economic upturn is nevertheless proving to be comparatively resistant to the uncertainty in the world at the moment.

IKEM INDUSTRIES OPTIMISTIC

The lack of any lasting impact on global growth from disruptions of this kind is vital for the ability of the IKEM companies to increase sales and production. Confidence is nevertheless

FIGURE 2. IKEM INDEX Q3 2016–Q2 2018.

Source: IKEM’s economic survey

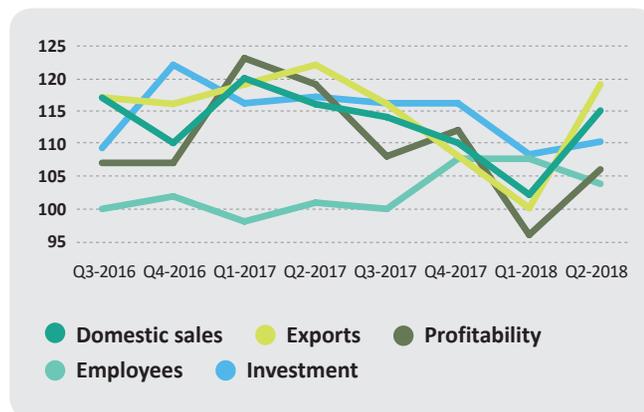
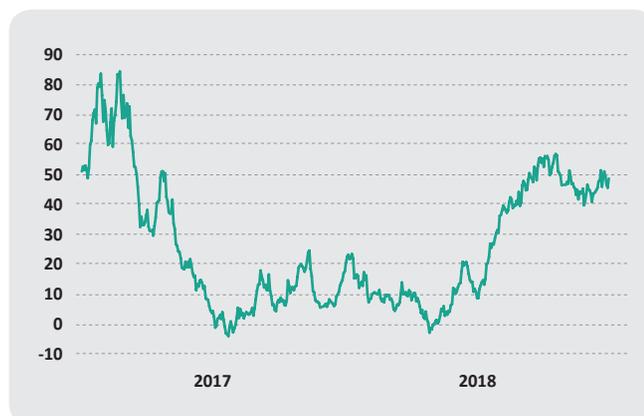


FIGURE 3. PRICE TREND FOR ENERGY INPUTS, SEK. ANNUAL RATE.

Source: HWWI



high among the member companies. Of the 50 per cent of member companies who ventured an opinion on the timing of any change in the economy, over 88 per cent believe that the economy has not yet peaked. The vast majority of these companies also see a positive trend for their own company for the current six months. The sales volume index for the current period is a good 118, just below the same level as the outcome for Q2. Unweighted, 50 per cent of the companies forecast increases in sales volumes during the second half of the year.

RAW MATERIAL COSTS DAMPEN PROFIT GROWTH

The obvious negative element in the IKEM companies’ Q2 reports is the large increase in raw material purchase costs. This is particularly true of energy-related raw materials, which happen to be the kind that the IKEM companies are largely dependent on in their production. The prices for these increased significantly on the global spot markets during the quarter – which from a Swedish perspective was also exacerbated by a weak SEK trend (Figure 3).

Unweighted, over 76 per cent of companies reported that their raw material purchase costs had increased slightly or a lot during Q2.

There is a relatively strong link between large cost increases and pressure on profitability at the moment. In Q2, the industry nevertheless reports a slight improvement in profitability (index 106), in contrast to the result for Q1 (index 96). This is a tentative increase, however, and there are major differences between different member companies. Unweighted, profitability fell at 35 per cent of the member companies during the quarter. There is no good news on the horizon in terms of raw material costs as a result of a strengthening of the SEK, as neither the Swedish political situation nor its monetary policy is attracting investors to the SEK. The forecast is instead that a stronger SEK lies a long way off.

HIGH CAPACITY UTILISATION – WEAKER PRODUCTIVITY TREND

A capacity utilisation of around 91 per cent (Statistics Sweden) for Swedish industry as a whole means that we are back at the pre-crisis levels of 2008. The IKEM companies are in line with the general Swedish industry trend. In the economic survey, they report strong pressure at production facilities, with a capacity utilisation (90 per cent) very close to the industry average for Q2. A high capacity utilisation makes it more difficult to increase productivity at the margin with given production resources. The response of 80 per cent of the companies (unweighted) was that they saw either a stagnant or a slightly negative productivity trend during the period. This compares with only 49 per cent during Q1 2018 and Q4 (2017).

MORE PEOPLE EMPLOYED

During Q2 2018, the IKEM companies added more employees to their figure of just under 50,000. This continues the positive employment trend for the fourth quarter in a row. Several of IKEM's previously published economic summaries describe how the bottleneck for many companies is access to the right skills rather than the need to reduce staffing levels. This is a challenge that the companies still have to manage. In this regard it may also be of interest to study the statistics concerning the number of redundancy notices within the IKEM industries. Data covering the period up to and including July clearly shows a moderate number of redundancy notices among the IKEM companies. In total, 444 people were given notice. This compares with whole-year figures, such as those for 2012, when a total of 4,440 people were given notice of redundancy.

ACTIVE WORK TO REDUCE CLIMATE IMPACT

The economic survey highlights the climate work of the IKEM companies once again this quarter. As a year ago, the companies have been asked questions about what they do to reduce their climate impact. Almost all IKEM companies (99 per cent)

say that they work very actively on this issue. The same was true a year ago but certain changes can be noted. There has been a significant shift in focus towards process development. The companies are now looking more at recycled raw materials than a year ago and slightly less at renewable raw materials.

TABLE 1. DOES YOUR COMPANY CARRY OUT ACTIVITIES TO REDUCE ITS CLIMATE IMPACT? IF SO, WHICH ACTIVITIES DO YOU WORK WITH?

Source: IKEM's economic survey

	2018	2017
Developing processes	91%	65%
Recycled raw materials	46%	32%
Requirement for climate-smart purchasing	43%	46%
Renewable raw materials	42%	71%
We are not actively working on this issue right now	1%	3%

SEEKING CIRCULAR BUSINESS MODELS – RULE CHANGES VITAL TO SUCCESS

The in-depth questions on climate activities in this year's survey have focused on circular solutions. This involves constructing material cycles, either by trying to establish closed loops for materials or by using waste products from others to create new materials, fuels and products. The survey clearly shows that development is being driven by entire value chains. The impetus comes mainly from the companies themselves, but also from their customers and suppliers.

Experts and researchers often talk about trying to find new business opportunities that result in both greater benefit for the environment and increased profitability. This positive approach can be found at the IKEM companies. Over 98% are looking for opportunities to find better business models that can contribute to increased profitability and also work towards circular solutions.

TABLE 2. REASONS FOR WORKING WITH CIRCULAR FLOWS.

Source: IKEM's economic survey

Opportunity for better business models to increase profitability	98%
Part of own strategy	70%
Demand from customers	65%
Demand from suppliers	48%

ACCESS TO RECYCLED RAW MATERIALS AND SKILLS BOTTLENECKS FOR CIRCULAR SOLUTIONS

What are the obstacles to a greater shift towards circular solutions? The main obstacle, according to the companies, is access to recycled raw materials. Over 80 per cent of the companies mention the need for better access to high-quality recycled raw materials, while 60 per cent consider high costs to be an obstacle. Only 9 per cent cite a lack of interest from customers. The second-most important obstacle is access to internal resources in the form of personnel. This is in line with what we have seen in previous economic summaries regarding access to development resources and the ability to recruit personnel with the right skills. Generally speaking, it may also be linked to the ongoing economic boom.

Supporting a switch to circular solutions is also a priority for the government. In August 2018, the government appointed a delegation for the circular economy, tasked with coordinating society's initiatives to support this development. The companies are looking for help here within a couple of areas.

As many as 86 per cent of the companies want to see reforms in the waste sector to increase access to high-quality recycled raw materials. A general simplification of the rules is desired (72 per cent) and specifically it must be easier to make minor changes to environmental permits without having to repeat the entire environmental permit process (60 per cent). The need for society to provide support in the form of standards and funding for research and development is less of a priority for the companies; see Table 4.

TABLE 3. MAJOR BOTTLENECKS IN INCREASING CIRCULAR SOLUTIONS.

Source: IKEM's economic survey

Access to recycled raw materials of sufficiently high quality	80%
Access to recycled raw materials at sufficiently low cost	68%
Internal resource limitations in the form of human resources	52%
Standards for recycled material	17%
Lack of interest from customers in forming partnerships	9%

TABLE 4. WHAT CAN SOCIETY DO TO SUPPORT THE COMMERCIAL DEVELOPMENT OF CIRCULAR SOLUTIONS?

Source: IKEM's economic survey

Reform the waste sector to increase access to recycled raw materials	86%
Simplification of rules and the authorities' interpretation of rules	72%
Easier to make minor changes to environmental permits	60%
Support through research and innovation funding	21%
Support/contribute to development of standards	14%

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 226 billion in 2016. 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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