

# Economic summary

FIGURE 1. INDEX OF THE IKEM COMPANIES' SALES ON THE DOMESTIC AND EXPORT MARKETS. AN INDEX OF 100 CORRESPONDS TO AN UNCHANGED LEVEL, MEASURED AT ANNUAL RATE.

Source: IKEM



## Economy drops down a gear – weak krona not helping the chemicals industry

The IKEM industries – the petroleum, chemicals, pharmaceuticals and plastics and rubber industries – are now experiencing an increasingly weaker international market. On top of this are the undesirable effects of a weak SEK, which is driving up purchase prices and increasing uncertainty regarding the companies' business. The IKEM companies generally do not benefit from a weak SEK. The large number of small to medium-sized companies, which do not usually use currency hedging, are particularly affected by the krona's slide.

It is now becoming increasingly clear that the growth of the global economy has begun to limp. An unfortunate combination of political events at the highest level in the world's largest economies (China and the USA) and what is happening regionally in Europe (UK) is accelerating the negative global growth trend. For the export-dependent Swedish industry, this means in simple terms that the industrial economy is slowing, having maintained a stable, positive trend for a long time. We are now entering a period of far greater uncertainty.

The one-fifth of Swedish industry that consists of chemical-related production – the petroleum, chemicals, pharmaceuticals and plastics and rubber industries – has so far been able to exceed last year's sales volumes. Most recently in the second quarter of the year. Sales volumes grew on both the domestic market and the vital export market, but at very modest rates, as expressed in indices of 105 (exports) and 104 (domestic). Over the past three years, only the first quarter of 2018 has seen a weaker growth rate.

## KRONA TREND INCREASES VALUE OF EXPORTS

According to the quarterly goods export figures published by Statistics Sweden, the growth in the value of exports was 7% for the IKEM companies during Q2, which represents a slowdown compared with Q1 (see Table 1). This 7% increase in value is largely currency-driven, as the IKEM volume index showed only a slight increase in volume. The increase in value is the result of an absolute majority of the exporting companies selling at "fixed" EUR and USD prices (see Table 2), which means that revenues increase as the value of the SEK falls. Few companies use a weak SEK to compete on price on the markets in which they operate; in other words reduce the quoted delivery price in USD or EUR.

It is also clear that the export outcome for Q2 varies greatly between the different subsectors. Plastics/rubber and chemicals exports slowed significantly compared with the first quarter of the year. These are among IKEM's most cyclical industries and feel the effects at an early stage of declining investment and production activity, within EU countries in particular. This trend will no doubt continue for the foreseeable future. The petroleum industry is also

**TABLE 1. THE IKEM INDUSTRIES' EXPORT VALUE TREND DURING Q1 AND Q2.**

Source: Statistics Sweden  
cyclical, but to a lesser extent than chemicals and plastics/

	Q1	Q2
Refineries	-6%	-7%
Chemicals	12%	4%
Pharmaceuticals	27%	26%
Rubber and plastics	12%	4%
IKEM total	11%	7%

rubber. Its loss of export value in both Q1 and Q2 resulted from the combination of a fall in volume and a declining world market price for oil. Pharmaceuticals, on the other hand, experienced a strong increase in export value in both Q1 and Q2 – clearly driven by the weak SEK. Pharmaceuticals exports are not cyclical and to a certain extent offset the limping quarterly trend of other IKEM industries.

**TABLE 2. HOW DOES YOUR COMPANY MAKE USE OF A WEAKER SEK?**

We have a "fixed" delivery price in EUR, USD, etc. Revenues in SEK are increasing.	88%
We take the opportunity to compete on price; i.e. we reduce the price of our range in USD and EUR. Revenues in SEK remain unchanged.	12%

## ECONOMIC DOWNTURN FOR BOTH LARGE AND SMALL IKEM COMPANIES

The IKEM industries account for around one-fifth of Swedish industry. All the companies operate on internationally competitive markets, but the size of the companies varies greatly. The Swedish chemicals industry, for example, has a large number of global billion-kronor companies, but considerably more small to medium-sized companies. There is a striking

**TABLE 3. IKEM INDEX DISTRIBUTED BY COMPANIES WITH ANNUAL TURNOVER GREATER THAN AND LESS THAN SEK 1 BILLION.**

Source: IKEM

ty	Domestic	Export	Sales forecast, 6 months	Employees	Investments	Raw materials	Profitabili-
Total	104	105	101	99	108	110	94
Large > SEK 1 billion	104	105	98	99	110	105	93
Small < SEK 1 billion	100	101	105	99	104	126	94

similarity, however, in terms of the current slowdown in sales growth. Sales volumes increased a little more quickly during Q2 for the larger companies, with annual turnover in excess of SEK 1 billion, than for the smaller companies (index 105 vs 101), but the differences are only very slight (Table 3).

When asked about the next six months, the small to medium-sized companies are slightly more optimistic about the prospects of surpassing last year's sales volumes. The large companies, on the other hand, expect to be able to match last year's volumes at best. The companies responded to the survey during July and the first half of August. Since then, global macro data has provided an even clearer downwards indication. In other words, there is reason to believe that the companies' forecasts would be more negative if they were made today.

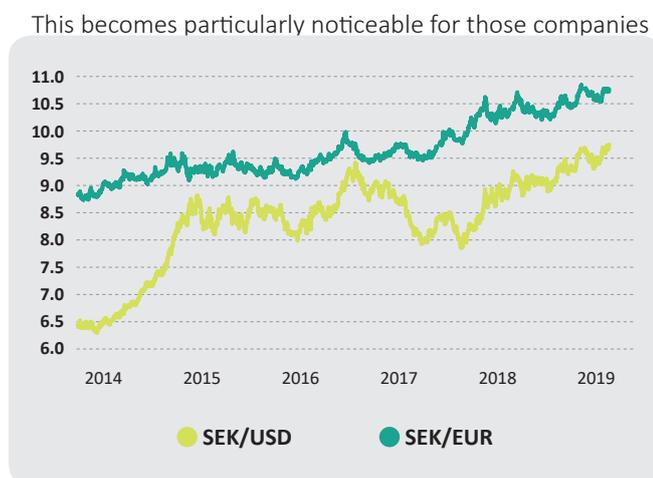
The situation facing Swedish export companies is currently tinged with a great degree of uncertainty as a result of developments abroad. On top of all these external factors, which are hard to assess, comes an uncertainty of Sweden's own making – a currency that is on the slide. So far this year, the SEK has fallen 10% against the USD and 5% against the EUR. Probably the main reason for this extremely weak development is the Riksbank sticking with a negative base rate. International trade concerns are also contributing to reduced interest in the SEK.

## WEAK SEK MEANS MORE LOSERS THAN WINNERS

In previous IKEM economic summaries, we have highlighted the fact that a weak SEK is not particularly beneficial to the petroleum, chemicals, pharmaceuticals and plastics and rubber industries. In fact, just under half (48%) of the companies are net losers so far in 2019 as a result of the weak SEK (Figure 3). The figure for those gaining from the weakening of the SEK is 18%.

## FIGURE 2. SEK TREND IN RELATION TO USD AND EUR.

Source: Macrobond

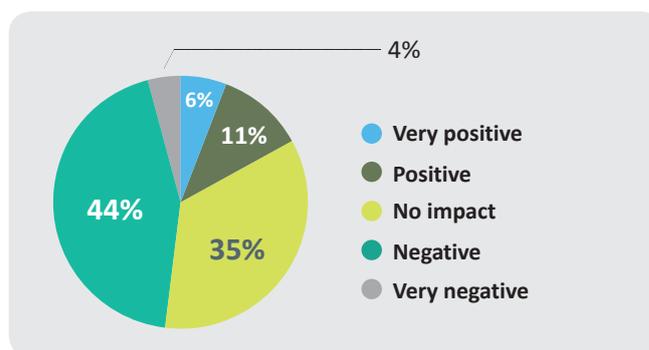


with a large share of their sales in SEK. Their ability to pass cost increases on to the next stage is clearly limited in the current economic phase. Profitability is suffering as a direct result. For the large proportion of companies that have their sales in USD and EUR, the increased costs of a weak SEK are somewhat easier to manage. It is worth noting, however, that even heavily export-driven industries within IKEM, such as the refinery and plastics industries, are reporting that they have lost out as a result of the weak SEK.

It may seem slightly odd that even those companies which do most of their business on the export market report that they are losers because of the weak SEK in 2019, not least because most companies report that they have a fixed price in "local" currency. This is the result, however, of the distribution of the companies' purchases/sales between different currencies. For the majority of the IKEM companies, a relatively large proportion of purchases are made in USD, while just under half of revenues are in EUR. As the SEK lost far more value to the USD than the EUR in 2019, this makes the outcome a negative one from an IKEM perspective.

## FIGURE 3. WHAT EFFECT HAS THE RAPID WEAKENING OF THE SEK IN 2019 HAD ON YOUR COMPANY'S PERFORMANCE?

Source: IKEM

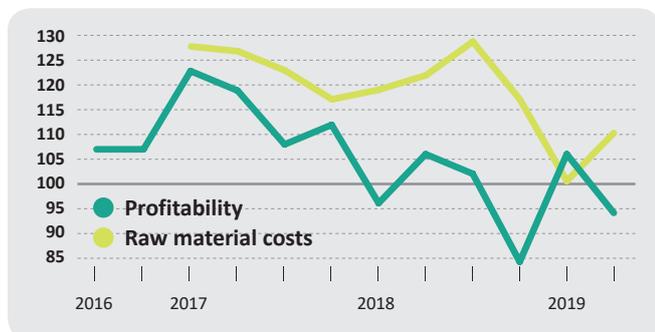


In times of rapid currency fluctuations, it can be reassuring to hedge some transactions (for both purchases and sales). This is something that the larger IKEM companies do on a regular basis. Less than one-tenth of the large companies refrain entirely from currency hedging (Table 4). Among the smaller companies, on the other hand, there is a majority (61%) which do not hedge their transactions. This probably explains why the smaller companies report a significantly higher cost increase for raw materials in Q2 compared with the large companies. According to the index for the input good cost trend in Q2, the smaller companies recorded an index level of 126, compared with 105 for the large companies (Table 2 and Figure 4). The fact that the loss of profitability, according to the index, is nevertheless the same during the quarter clearly demonstrates that the smaller companies found other ways of offsetting the rapid cost increases more quickly.

**FIGURE 4. INDEX OF PROFITABILITY TREND (EBIT) AND RAW MATERIAL/INPUT GOOD COSTS AMONG THE IKEM COMPANIES.**

AN INDEX OF 100 CORRESPONDS TO AN UNCHANGED LEVEL, MEASURED AT ANNUAL RATE.

Source: IKEM



**TABLE 4. DOES YOUR COMPANY USE CURRENCY HEDGING? LARGE COMPANIES => SEK 1 BILLION IN ANNUAL TURNOVER**

Source: IKEM

	Total	Small	Large
Yes, to a great extent	19%	8%	24%
Yes, partially	50%	20%	66%
Yes, to a small extent	6%	11%	3%
No	25%	61%	8%

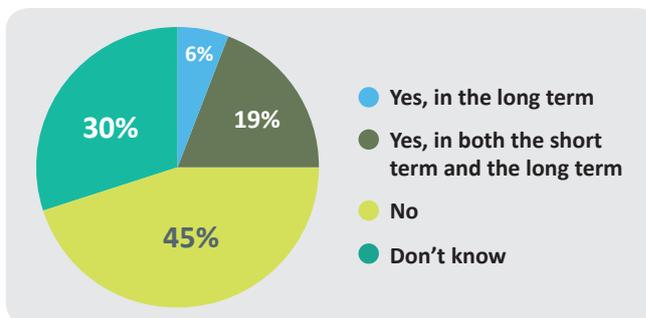
The currency hedging of transactions is not without its cost. It also requires clear internal resources and procedures, which the large companies more often have in place, compared with the small and medium-sized companies. Common to all companies, whether or not they use currency hedging, is that a volatile SEK rate means unnecessary costs and uncertainties for the business.

## SWEDISH INDUSTRY BEING SOLD OUT?

Another subject of discussion among economists and business leaders recently is what a persistently weak SEK does to the interests of Swedish industry in being at the forefront of product development and innovations. A weak SEK “sells out” what Swedish industry has to offer. This discussion is not a new one and was frequently heard in the wake of the multiple devaluations that took place in the 1970s and ‘80s. Then Sweden had a fixed exchange rate, but (wage) cost increases that were too rapid priced us out of the world market. The continual devaluations helped the situation but also meant a certain “preservation” of the Swedish industrial structure. In the same way, today’s floating SEK and its current low value could help to take the edge off the companies’ need/willingness to always be at the forefront with the range they offer. Selling their products with a high-value currency requires the

**FIGURE 5. DO YOU BELIEVE THERE IS JUSTIFICATION FOR THE STATEMENT “A SUSTAINED WEAK SEK REDUCES THE EFFORTS OF SWEDISH INDUSTRIAL COMPANIES TO INCREASE PRODUCTIVITY”?**

Source: IKEM



range offered to be more penetrative to such an extent that the price becomes secondary.

Is there any cause for concern that the industry’s efforts to remain at the forefront are being reduced by a weak SEK, according to the leading representatives of the IKEM companies? This is obviously a speculative question, but it still has some relevance following the recent debates about the effects of a weak SEK. The fact is that a quarter of the IKEM companies believe there is justification for the statement that a sustained weak SEK is detrimental to productivity efforts (Figure 5). At the same time, 45% of the companies believe there to be no such risk. They are in any case well aware of their global situation and where they need to position their offering in order to be commercially viable, regardless of the prevailing value of the SEK. The remaining 30% have no opinion on the matter. It is therefore impossible to establish that the issue is irrelevant, given the wide range of responses and the large proportion who remain uncertain. We will continue to discuss whether an underperforming SEK is harmful to Swedish industry or not.

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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