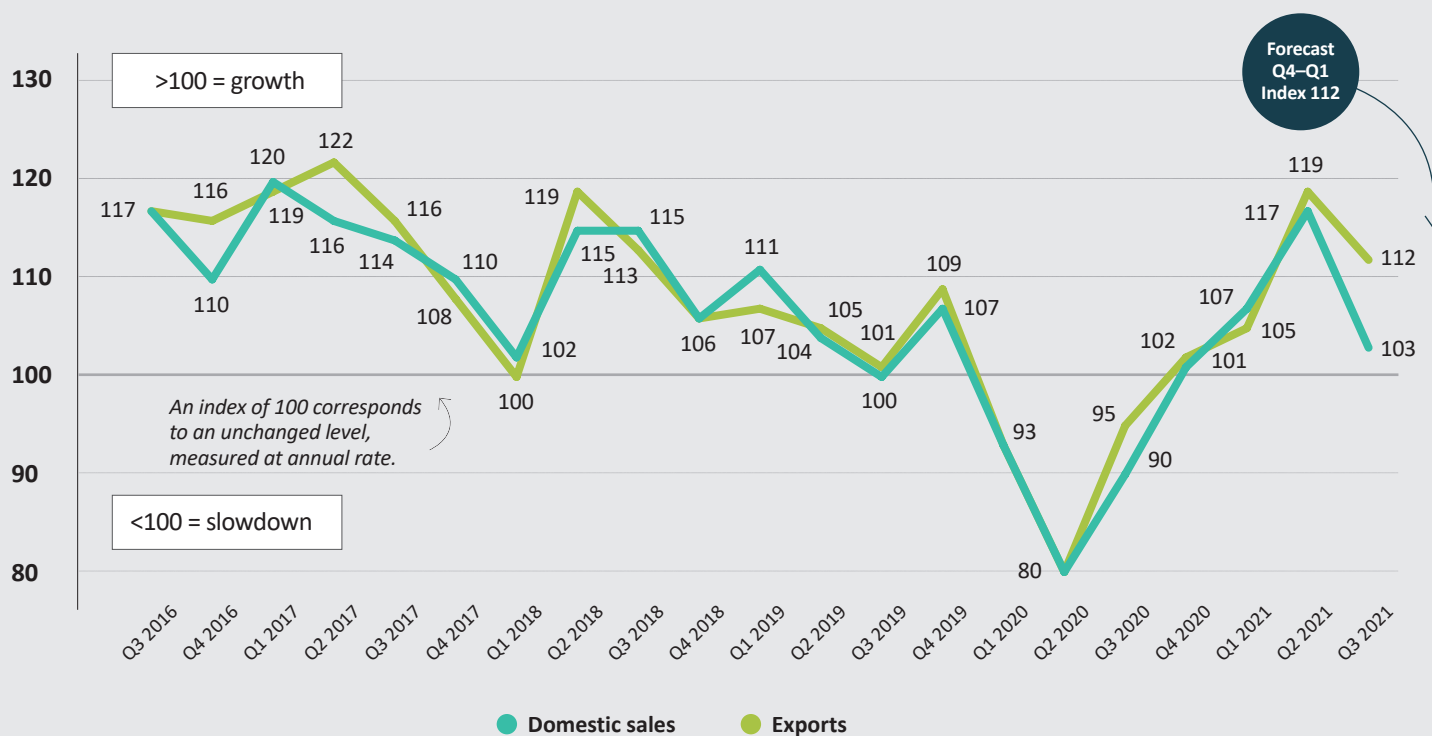


## ECONOMIC SUMMARY

FIGURE 1. IKEM INDEX FOR THE PERIOD Q3 2016–Q3 2021 FOR DOMESTIC SALES AND EXPORTS (VOLUME AT ANNUAL RATE). AN INDEX VALUE BELOW 100 INDICATES A SLOWDOWN (CONTRACTION).

Source: IKEM



## Bottlenecks hold back growth in Q3

**The Swedish chemical industry is doing well (pharmaceuticals, chemicals, plastics and rubber and refineries). The industry has high capacity utilisation and is taking on new employees. Despite this, there is concern that investments in new sustainable technology will not be made in Sweden because of new rules on temporary environmental permits, high energy prices and an unreliable electricity supply.**

There is strong global demand for products from the Swedish chemical industry (pharmaceuticals, chemicals, plastics and rubber and refineries). This is clearly shown in IKEM’s economic report for the third quarter of the year. As was the case during the first half of the year, however, various kinds of bottlenecks are restricting the companies’ opportunities to achieve their full production potential. Despite this, all subsectors of the chemical industry saw growth

in volume (Table 1). It is worth remembering that the positive development in the quarter is in comparison with the third quarter of 2020, a quarter that was nowhere near as badly affected by coronavirus as the first two quarters of 2020.

All subsectors reported growth on the vital export market during the quarter. By far the clearest growth was seen in chemicals production. Its index value of 120 indicates a clear increase in volume (where anything above an index of 100 represents growth). Pharmaceuticals achieved an index of 109, while the plastics and rubber industry recorded more modest growth, measured at an index of 106.

Capacity utilisation for IKEM as a whole during Q3 was 88%. The chemical-related industry’s rise to ever higher capacity utilisation over the past year is also borne out by the official statistics. According to Statistics Sweden, which monitors the pharmaceuticals and chem-

**TABLE 1. IKEM INDEX BROKEN DOWN BY SUBSECTOR AND FOR THE TOTAL. AN INDEX VALUE OF 100 CORRESPONDS TO AN UNCHANGED LEVEL, MEASURED AT ANNUAL RATE. VALUES ABOVE 100 INDICATE GROWTH/ INCREASE.**

Source: IKEM

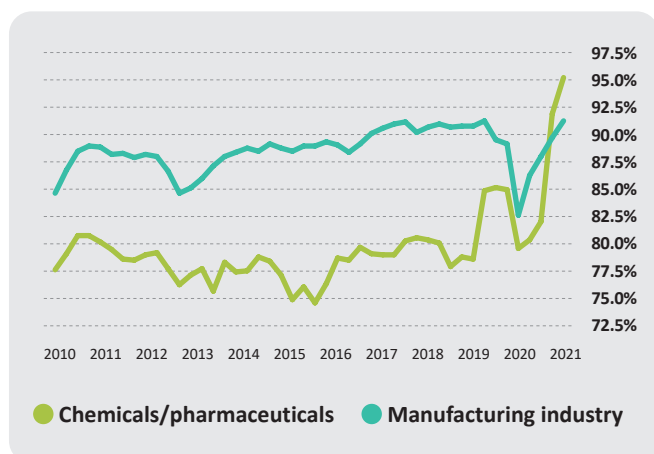
	Domestic sales	Exports	Employees	Investment	Cost trend	Profitability (EBIT)
Plastics/rubber	106	106	96	117	146	107
Chemicals	110	120	106	108	144	117
Pharmaceuticals/refineries	97	109	116	109	123	117
<b>Total</b>	<b>103</b>	<b>112</b>	<b>110</b>	<b>110</b>	<b>133</b>	<b>115</b>

ical industries as a single unit (excluding plastics and rubber and refineries), capacity utilisation as high as 95% was recorded during Q2. This is a level that has never been recorded before for the pharmaceuticals and chemical industry, at least not during the 30+ years that Statistics Sweden has been monitoring its development. Nor has the chemical industry/pharmaceuticals previously exceeded the level for the industry as a whole by such a wide margin.

Production conditions differ greatly between the subsectors, however. Virtually all companies producing plastics and rubber report various kinds of obstacles to production during the quarter, as do seven out of ten chemical companies. Within pharmaceuticals/refineries, only 22% of companies report experiencing such problems during the quarter.

**FIGURE 2. CAPACITY UTILISATION UP TO Q2 2021 IN CHEMICALS/PHARMACEUTICALS AND MANUFACTURING INDUSTRY AS A WHOLE.**

Source: Statistics Sweden



### WHAT PROBLEMS DO THE BOTTLENECKS CREATE?

What impact have the bottleneck problems had more specifically at company level? The answer is that global imbalances between supply and demand result in a wide range of negative effects. The most obvious are rampant costs, which are reported by the majority of plastics, rubber and chemical companies (Table 2). All major cost

items, such as the costs of raw materials, transport and electricity, have been on a clear upward trend.

Even more problematic is that the companies are unable to obtain raw materials in sufficient quantities for their production. Nor are they managing to source sufficient transport capacity globally. This is the reality experienced by almost all the plastics and rubber companies and half of the chemical companies during Q3. The pharmaceuticals industry and refineries have so far managed significantly better in these respects.

Despite large cost increases for most companies during Q3, profitability is increasing slightly in all subsectors (at annual rate). The companies' profitability in the comparison quarter, Q3 2020, was dragged down by the huge amount of chaos caused by the pandemic. The fact that profitability is now increasing indicates there is an understanding and acceptance of the need for delivery price increases in business-to-business relationships. The pharmaceuticals industry is the subsector that is best able to withstand increases in the price of raw materials. This is because they account for Swedish industry's single highest degree of processing, i.e. raw material costs represent a relatively small proportion of the companies' turnover.

The overwhelming majority of companies affected by bottleneck issues during Q3 expect these problems to continue during Q4. In fact, more and more companies seem to be pushing back the time when they think the bottlenecks will disappear. However, a generally increasing cost and price spiral itself cools global growth, which contributes to a better balance between supply and demand. It does not appear, however, that this balance will be achieved before the end of the calendar year.

Despite the bottleneck problems, the companies expect, just as in Q2 and Q3, to be able to increase their production over the next six months (Q4 2021 and Q1 2022). The index value of 112 indicates stable growth, measured at annual rate, compared with a period that also had strong volumes.

### POSITIVE EMPLOYMENT TREND

During Q3, the number of employees increased and investments developed positively in the chemical-related industry (Table 1). The growth rate for the number of employees is the highest in the 5-year

**TABLE 2. HOW HAS YOUR COMPANY BEEN AFFECTED DURING Q3? SELECT ALL ANSWERS THAT APPLY. PROPORTION OF ALL COMPANIES.**

Source: IKEM

	Difficult to obtain raw materials	Shortage of plastic products	Shortage of available transport	Significant increase in input/raw material costs	Significant increase in transport costs	The company's electricity consumption has become considerably more expensive	Other
Plastics/rubber	84%	67%	71%	99%	84%	78%	1%
Chemicals	51%	22%	38%	61%	44%	27%	0%
Pharmaceuticals/refineries	12%	1%	12%	14%	12%	8%	0%
<b>Total</b>	<b>36%</b>	<b>18%</b>	<b>30%</b>	<b>42%</b>	<b>34%</b>	<b>25%</b>	<b>0%</b>

history of IKEM's economic summary. The increase is most evident in the pharmaceuticals industry, but the chemical industry also reports growth in employment (Table 1). The plastics and rubber industry, however, recorded a slight fall in the number of jobs during the period. The six-month forecast for the number of employees remains high, expressed in an index of 109.

## TEMPORARY ENVIRONMENTAL PERMITS MAY DISCOURAGE INVESTMENT

High capacity utilisation combined with a continued transition to more sustainable production will increase the need for investment in the Swedish chemical-related industry in the next few years. This is an industry that already leads the world in resource-efficient sustainable production, but which is still striving to reduce its climate impact. What the companies want most is greater predictability for their long-term investments.

It is therefore worrying to see how the companies view the government-appointed inquiry on allowing all industrial companies in Sweden that have an impact on the environment to be covered by temporary permits.

Asked what temporary permits would mean for them, 83% of the companies answered that it would have a negative impact on their business, with 35 percentage points here saying it would have a very negative impact. In the comments field for this question,

**TABLE 3. WHAT DO YOU THINK THE IMPACT WOULD BE ON YOUR COMPANY'S SWEDISH OPERATIONS IF THE WIDESPREAD APPLICATION OF TEMPORARY PERMITS WAS INTRODUCED IN SWEDISH INDUSTRY?**

Source: IKEM

Very negative	35%
Negative	48%
Neither negative nor positive	12%
Positive	1%
Very positive	4%

the companies reported that their greatest concern is increased uncertainty about future production conditions. According to the companies, this would reduce the willingness to invest and in many cases result in the relocation of production to countries with a greater degree of predictability.

Temporary permits would exacerbate the uncertainty that the companies are already experiencing with regard to the licensing and supervisory authorities on which they are reliant. Long and arbitrary permit processes are a negative factor that is repeatedly mentioned by companies operating in the chemical-related industry when asked to assess Sweden's relative competitiveness. The companies want faster, more predictable permit processes and the relationship with the licensing authorities is absolutely central to this.

The companies' operations are often based on complex production processes, which means extensive application procedures and contact with authorities at municipal, regional and national level. This makes significant demands both of the companies and of the relevant authorities. Asked for their view on the level of competence of the authorities' staff regarding the industry's operations, the companies are generally quite positive. This does not apply, however, to the vital contact with the municipal authorities, where as many as one-fifth of the companies report that the level of competence is too low. The corresponding figure for the county administrative board is 10%.

The level of competence at the authorities is a key parameter, but at least as important are the attitudes that the companies encounter in their contact with the authorities. On this point, the picture is much worse than it is for the level of competence. According to 18% of the companies, there is a feeling that municipal officials have a bad attitude towards the industry and, worse still, as many as 27% of the companies believe that the county administrative board's officials have a negative attitude towards the industrial operations carried out by the chemical-related industry.

## SWEDISH ELECTRICITY SUPPLY A CAUSE FOR CONCERN

A production parameter that is absolutely vital to Swedish industry, and which is becoming increasingly important as companies make the

**TABLE 4. HOW DO YOU FIND THE LEVEL OF COMPETENCE REGARDING THE COMPANY'S OPERATIONS AT YOUR SUPERVISORY AUTHORITY AND LICENSING AUTHORITY?**

Source: IKEM

	Municipality	County Administrative Board	Land and Environment Court
Poor	6%	0%	0%
Not entirely acceptable	15%	10%	8%
OK	58%	33%	19%
Good	13%	19%	13%
Very good	7%	3%	9%
Don't know	2%	34%	51%

**TABLE 5. HOW DO YOU FIND THE CURRENT ATTITUDES OF OFFICIALS AT SUPERVISORY AND LICENSING AUTHORITIES TOWARDS THE INDUSTRY?**

Source: IKEM

	Municipality	County Administrative Board	Land and Environment Court
Bad	5%	2%	0%
Not entirely acceptable	13%	25%	8%
OK	31%	20%	21%
Good	38%	7%	7%
Very good	10%	9%	9%
Don't know	3%	36%	54%

transition to climate neutrality, is the availability of reliable electricity at a competitive price. The trend within this area has been anything but positive in recent years. Unfortunately, there are many indications at present that the uncertainties surrounding Swedish electricity supply are here to stay for a long time to come. This includes everything from current/future production capacity to the distribution of electricity between different parts of the country and the price differences that prevail between the different electricity zones.

In the survey that provides the basis for the economic summary, the member companies were asked to comment on three statements relating to the Swedish electricity supply. A significant majority, 82% of the companies, say that they are worried about downtime caused by power shortages during peak demand periods. This is a new reality for Swedish industry, having to allow for downtime caused by power shortages. Unplanned downtime results in very high costs for the process-oriented industry in particular.

As well as the supply of electricity, including during peak demand periods, the companies are also worried about runaway electricity prices. Practically all the member companies express concern about

**TABLE 6. WHAT IS YOUR VIEW ON THE DEVELOPMENT OF THE SWEDISH ELECTRICITY SUPPLY? TO WHAT EXTENT DO THE FOLLOWING STATEMENTS APPLY TO YOUR COMPANY?**

Source: IKEM

	The company is concerned about downtime caused by power cuts during peak demand periods, etc.	The company is concerned about runaway costs for the company's electricity consumption.	The trend towards a more unreliable electricity supply in southern Sweden has a detrimental impact on our company's willingness to invest.
Does not apply to us (electricity zones 1 and 2)	1%	1%	13%
Disagree completely	18%	2%	38%
Somewhat agree	54%	49%	29%
Agree completely	28%	49%	20%

uncontrolled electricity price rises. The fact that Swedish industry has been able to achieve widespread growth and development throughout the country since the early 1960s has largely been the result of a reliable supply of competitively priced electricity. The current situation of unpredictable rises in electricity prices is a very unwelcome development from the industry's perspective, as the responses to the survey very clearly show.

Ultimately, this is all about Sweden's continuing ability to rely on the industry having the courage and desire to invest in its Swedish operations. The fact that 50% of the IKEM companies consider it likely that a deficient electricity supply in southern Sweden will reduce the willingness to invest in the country is therefore a clear warning sign.

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 304 billion in 2020. 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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