ECONOMIC SUMMARY

FIGURE 1. **IKEM INDEX FOR THE PERIOD Q3 2016–Q2 2022 FOR DOMESTIC SALES AND EXPORTS (VOLUME AT ANNUAL RATE). AN INDEX VALUE BELOW 100 INDICATES A SLOWDOWN (CONTRACTION).**

Source: IKEM

IKEM companies report a decline in Swedish competitiveness

For the first time since the coronavirus-affected Q3 2020, total Swedish chemical-related production, which represents one-fifth of Swedish industrial production, reported declining production volumes in Q2. The comparison quarter of Q2 2021 was the fastest-growing quarter last year, which made for a challenging comparison period. At the same time, it is clear that the lingering effects of war and pandemic are holding back the production potential of the IKEM companies. Seven out of ten member companies report that they have been negatively affected to varying degrees by a range of different obstacles restricting production during Q2. This may also explain why the quarter was worse than forecast for 44% of the companies (better for 31% and in line with forecast for 25%).

SLIGHT VOLUME INCREASE IN THE FORECAST

Global growth is currently being supressed at a rapid rate in the wake of increased energy prices and central bank interest rate hikes. Combined with the energy problems that lie ahead for the EU this autumn and winter, the evidence strongly suggests that Sweden is being dragged into both a regional and global recession. Despite this, the IKEM companies envisage opportunities for increased production in the current half-year, as indicated by an index of 106. However, a good nine out of ten companies then expect to continue to see their production potential restricted in Q3 as a result of disruptions in global supply chains. An increase in production despite the obvious deterioration in the global economy may seem optimistic, but it is probably the result of many companies being unable to meet current demand. In other words, surplus demand is so great that it provides scope for increasing production even as demand pressure eases. An economic slowdown can therefore, at least temporarily, help to establish a better balance between supply and demand.

The various factors disrupting global supply mean that costs continue to skyrocket for the companies. Swedish IKEM companies have now faced rapidly rising costs for their raw material purchases for six quarters in a row. The index of raw material costs reached 139 in Q2, which is the second-highest figure since IKEM began measuring it six years ago, surpassed only by the level in Q1 2022 (index of 142). The most remarkable thing, of course, is that costs are increasing from already high levels. It was not only the costs of raw materials/input goods that were increasing and they continued to be accompanied by similar cost increases during the quarter for both electricity and transport (index of 139). It is hardly surprising then that these widespread major cost increases are beginning to eat into the companies' margins. As they were in Q1, the companies' operating margins are down slightly in Q2 (index of 97).

On the cost side, the companies are forecasting that costs will continue to rise in Q3 from their already high levels. The forecast index figures are in the range of 121–125 for electricity, transport and raw materials, while an index of 112 is reported for packaging. Despite all the forecasts continuing to indicate clear cost increases, this still represents a break in the trend of increasingly rapid cost rises since Q1 2020.

The cost forecasts are predominantly issued in the first half of July but there has been a downward trend in the price of crude oil since then. Crude oil prices have a major bearing on the general cost pressure on the IKEM companies. Hopefully, a more sustained fall in the price of crude oil may mean that the cost forecasts for raw materials/input goods in particular turn out to be slightly too high for the current quarter. At the same time, there is a huge amount of uncertainty about the crude oil price trend in the future and we may well see a reversal of this favourable development in the autumn.

TABLE 1. **HAS THE COMPANY'S PRODUCTION BEEN AFFECTED BY INERTIA IN THE GLOBAL VALUE CHAINS BECAUSE OF LOGISTICS PROBLEMS, TRADE SANCTIONS AND/OR SUPPLY SHORTAGES IN Q2? FORECAST FOR Q3.**

Source: IKEM

	Q2	Forecast Q3
Yes, considerably	14%	5%
Yes, somewhat	34%	42%
Yes, to a small extent	19%	45%
No	33%	8%

SWEDISH STRENGTHS AND WEAKNESSES FROM AN IKEM PERSPECTIVE

Sweden would not be one of the world's most successful industrial nations if the country had not enjoyed favourable production conditions over time. This is clearly evident in the growth of successful industrial companies for more than a hundred years. Sweden has not of course been on the top step of the podium in all production-affecting areas, or "framework conditions", but its "total offering" has ranked highly in international comparison.

IKEM's member companies compete on the global market within their respective niches and around 90% of their production is exported. Many of the companies are also part of international groups that have production facilities all over the world. In light of this, it is interesting to ask the member com-

TABLE 2. **IKEM INDEX FOR Q2 2022.**

An index value of 100 corresponds to an unchanged level, measured at annual rate. Each subsector is weighted according to its value-added share in IKEM as a whole. Source: IKEM

	Domestic deliveries, volume	Deliveries to the export market, volume	Number of employees	Investment	Cost of raw materials/ input goods	Cost of electricity consumption	Transport costs	Profitability (EBIT margin)
Plastics and rubber	87	85	101	106	136	146	141	96
Pharmaceuticals and refineries	101	98	103	102	134	131	133	97
Chemicals	111	91	99	96	149	147	149	96
Total	**101**	**94**	**101**	**101**	**139**	**139**	**139**	**97**

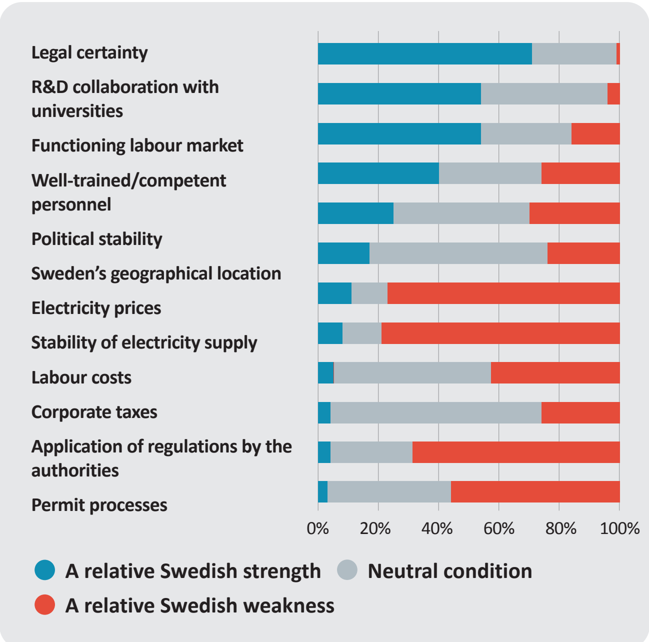
panies to rate the production conditions in Sweden compared with those in relevant competing production countries. IKEM has asked the companies to do this on three occasions: in 2016, in 2019 and now in 2022. For 12 production-affecting "framework conditions", the companies were asked to state whether Sweden has a relative advantage or disadvantage compared with competitor countries. Alternatively, whether Sweden is considered to offer the same conditions as its competitor countries, which are then neutral production conditions.

SWEDEN LOSING RELATIVE COMPETITIVE ADVANTAGE IN MANY AREAS

The results of the latest survey show, slightly worryingly, that IKEM's member companies believe Sweden has lost relative competitive advantage in 7 out of 11 variables and reports a huge disadvantage in a newly added area – "stability of electricity supply". The companies rank Sweden highly in international comparison in four of the framework conditions: "legal certainty", "R&D collaboration", "functioning labour market" and "well-trained/competent personnel". In all these areas, more companies consider Sweden to offer a competitive advantage than a disadvantage (excluding those who consider it neutral). However, with the exception of R&D collaboration, Sweden's leading position in these areas has weakened slightly compared with 2019. With regard to a "functioning labour market", it is not unreasonable for the labour market in competing countries to have moved closer to the conditions on the Swedish labour market. The Swedish collective agreement model, with central collective bargaining agreements, has historically meant a relatively low level of conflict.

FIGURE 2. **BASED ON YOUR COMPANY'S SWEDISH PRODUCTION, HOW WOULD YOU DEFINE SWEDISH OPERATING CONDITIONS RELATIVE TO THE REST OF THE WORLD (YOUR MAIN COMPETITOR COUNTRIES) FOR THE VARIABLES BELOW?**

Source: IKEM



In two areas, the position is considered to be relatively neutral between Sweden and its competitor countries: "political stability" and "Sweden's geographical location". In terms of "political stability", however, Sweden has lost the clear advantage that it had in 2019 (72%) and now occupies a rather more mediocre position among competitor countries that are also experiencing a fairly unsettled parliamentary situation.

It is also interesting to note that the companies now only rank "Sweden's geographical location" as a competitive disadvantage to a small extent, a clear improvement compared with the result in 2019. The survey does not provide an indication of the exact reasons for this, but it may possibly relate to the fact that the pandemic, and the logistics chaos that trailed in its wake, has created a greater appreciation for the value of being close to the primary market in Europe, with competitors in Asia and the USA therefore suffering a clear disadvantage. We will report back on this following the completion of new surveys containing follow-up questions.

With regard to the other six framework conditions for Sweden as a production country, there is every reason to be concerned about the large majority of companies that report a Swedish competitive disadvantage. It should be pointed out at the outset, however, that there have been welcome improvements in two of these – "labour costs" and "permit processes" – although they still remain clearly negative overall. Labour costs improving from -86% to "only" minus-37% is reasonably explained by the fact that the latest central bargaining agreement was comparatively restrained, but equally by the weaker Swedish krona trend. This is a very welcome development, although a weaker krona is not a factor to be relied upon in the long term. The move towards less negative figures in relation to "permit processes" is equally welcome, although it is still alarming that a majority of 52% of the companies believe that Sweden's competitor countries are doing better in this area.

Corporate taxes are another area where the member companies believe that Sweden has lost competitive advantage since 2019, falling from a clearly positive majority in 2019 to a negative majority of 21% in 2022. This may possibly be related to the limitation of the right of Swedish companies to deduct interest during this period. What has gradually become an established truth over the past decade – that Swedish corporate taxes are internationally competitive – is a view no longer being supported by IKEM's member companies at least.

The final three framework conditions all indicate a crushing negative majority and a Swedish competitive disadvantage. "Application of regulations by authorities" was on the right side in 2019 with a slightly positive majority, but has now slipped

TABLE 3. **NET FIGURES FOR EACH FRAMEWORK CONDITION (PROPORTION OF POSITIVE RESPONSES - PROPORTION OF NEGATIVE RESPONSES) AND HOW THE RESULT HAS CHANGED COMPARED WITH THE PREVIOUS SURVEY IN Q1 2019.**

The importance placed on the different framework conditions by the companies is indicated in the end column, where 1 represents "irrelevant" and the maximum value of 5 represents "absolutely vital importance". Source: IKEM

	2019	2022	Change	Degree of importance
Legal certainty	92%	70%	▼	3.6
R&D collaboration with universities	-12%	51%	▲	4.2
Functioning labour market (degree of conflict, etc.)	92%	37%	▼	3.7
Well-trained/competent personnel	66%	13%	▼	4.4
Political stability	72%	-5%	▼	4
Sweden's geographical location	-86%	-7%	▲	2.8
Corporate taxes	42%	-21%	▼	3.7
Labour costs	-86%	-37%	▲	3.5
Permit processes	-86%	-52%	▲	3.9
Application of regulations by authorities	3%	-63%	▼	3.7
Electricity prices	42%	-67%	▼	4.4
Stability of electricity supply		-72%	N/A	4.5

dangerously to-63%. During the same period, there has been an upshift in the sustainability ambitions of Swedish IKEM companies and it has subsequently become apparent just how muddled, arbitrary and time-consuming the application of regulations by authorities is.

"Swedish electricity prices" and the stability of the Swedish electricity supply are the two bottom-ranked areas on the companies' list. Roughly seven out of ten IKEM companies state that Sweden is at a competitive disadvantage in these two absolutely crucial areas. The framework condition "stability of electricity supply" was not included in 2019 as it was basically a non-issue then. However, two reactors in Ringhals have subsequently been shut down, unfortunately making this a critical factor for the companies. No other framework conditions are allocated greater importance for the often energy-intensive Swedish chemical-related production. Their degree of importance, according to the companies, amounts to 4.4 and 4.5, where the maximum value of 5 corresponds to "vital importance".

It is nothing less than a major political failure that the Swedish electricity supply has gone from being a decades-long Swedish strength to having now completely collapsed, in reality jeopardising the very survival of some areas of Swedish industry in the southern half of the country.

A survey of this kind should, of course, be interpreted with caution. The results nevertheless provide a picture of how business leaders within the internationally competitive field of chemical-related production view Sweden's framework conditions right now. Whether they are right or wrong, it is their feelings about Sweden's production conditions that will influence the direction and size of the company's next investment or strategic decision. It is unreasonable to expect Sweden to achieve the most favourable position within all the framework conditions, but it should try to avoid finding itself at the bottom in too many areas. The Swedish electricity supply is obviously the most urgent issue to resolve, although this will unfortunately take a long time and in the interim significantly reduce Swedish competitiveness. It is also clear that politicians need to deal with the problems relating to permit processes and the application of regulations by the authorities at a time when industry is making the transition to more sustainable production.

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 352 billion in 2021. 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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