

***EU CHEMICAL INDUSTRY EXPECTED TO FOLLOW  
A MODEST AND FRAGILE RECOVERY IN 2010***

**Brussels, 17 November 2009 - Cefic, the European Chemical Industry Council, expects output in the chemical industry (excluding pharmaceuticals) to decline by about 12% in 2009. Expectations for 2010 show a growth of nearly 5% compared to 2009 (Chart 1).**

Output of chemicals (excluding pharmaceuticals) in Europe in 2009 is now expected to fall by about 12% compared to 2008 before a modest growth of nearly 5% in 2010. This means output in 2009 will fall even further than was foreseen last May. More positively, there is now evidence from published production data, and not just from forward-looking business confidence surveys, that the bottom has been reached, and most chemicals sectors in most major EU countries are seeing some recovery (Chart 2). Basic chemicals – petrochemicals, polymers and inorganics – remain the hardest hit, having suffered sharp falls in demand from important customer markets such as automotive and construction. In contrast to the sharp fall in chemicals output in the second half of 2008, recovery so far has been relatively muted (Chart 2). There is no sign of any major rebuilding of inventories by downstream customers, which suggests a prevailing mood of caution and continuing difficult credit and liquidity conditions.

Cefic projects further recovery at a cautious pace but without any subsequent “double dip” setback. 2010 is a year of transition as the considerable stimuli given by government incentives such as car “scrappage” schemes are withdrawn, and real consumer demand has to take over. In the face of still high unemployment this demand is likely to be quite weak. Car purchases by individuals (as opposed to fleet buyers) were drawn forward into 2009 by “scrappage” incentives, and could see a balancing lull in 2010. The forecast assumes this pattern is reflected in chemicals sectors such as polymers and petrochemicals, with a pause in recovery in the first half of 2010.

Although projected year-on-year growth rates for most sectors in 2010 appear quite positive, they must be seen in the context of the exceptionally steep falls seen in 2008 and continuing very low levels of production in early 2009, as the chart shows. At the end of 2010, production levels for chemicals will still be 11% below the previous peak in Q1 2008 (Chart 3). This implies that the industry is operating far below its optimal capacity utilisation level, which in turn means lower production efficiency and reduced margins. On the other hand, it leaves the industry well placed to respond to higher demand once confidence returns and downstream customers start to rebuild inventories. Everything considered, it is likely to be several years before previous peak output levels are regained.

Risks to this forecast come mainly from the still uncertain macroeconomic environment, described below, particularly governments’ timing of withdrawal of economic stimuli. The speed of improvement in credit availability from the financial sector is also unknown. A downside risk specific to the chemical industry concerns the build-up of new petrochemical capacity, particularly in the Middle East, and what proportion of its output might find its way into European markets.

#### ***Global Economic Environment (Chart 4)***

A modest and fragile recovery is under way after a coordinated monetary and fiscal stimulus. Industrialised countries have been the hardest hit by the financial and economic crisis. China, where the government has injected huge sums to maintain growth, has led the way after little more than a brief pause. The US had begun a downturn as early as Q4 2007 but still shared with Europe and Japan the steep fall at the end of 2008. The developed countries have now belatedly begun a hesitant recovery. Consumer confidence remains low in the face of high unemployment and business has continued worries over difficult credit markets. Many financial institutions remain in convalescence. Most industrial sectors have been severely affected, especially automotive and other transport equipment, steel, textiles, machinery, electronic and electric equipment, and construction.

Recovery so far has been highly dependent on the coordinated stimuli provided by governments. These have come at the cost of very large increases in public debt. In order to prevent this running out of control, governments will soon need to reverse the outflows and rebuild their own financial stability. The timing of the changes in policy will need to be finely judged in order that the recovery is not put in jeopardy, while avoiding the need for an even harsher correction if they are left too late.

The slow recovery from what has been the deepest recession since the Second World War means that there have been enormous growth losses relative to trend. These losses appear unlikely to be made up, even though 2011 and 2012 should see greater underlying momentum and a return to more normal conditions.



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