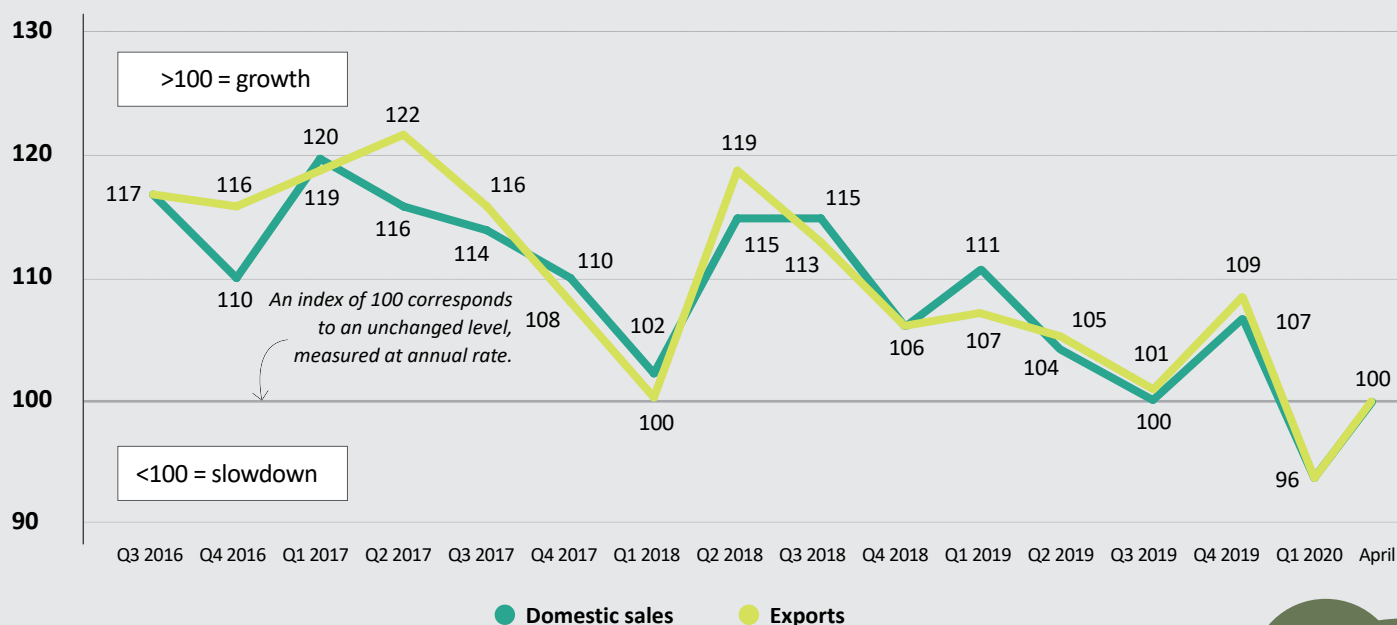


Economic summary

CORONA-
VIRUS SPECIAL

FIGURE 1. IKEM INDEX FOR THE PERIOD Q3 2016–APRIL 2020 FOR DOMESTIC SALES AND EXPORTS. AN INDEX VALUE BELOW 100 INDICATES A SLOWDOWN (CONTRACTION) IN VOLUME.

Source: IKEM



Forecast
May:
87

IKEM companies showing resilience – but wide variation in how companies are being affected by the pandemic

Conditions are constantly changing because of the coronavirus crisis. Never has it been so difficult to predict what will happen to the global economy and how our Swedish industrial companies will fare. IKEM publishes a regular economic summary every quarter. Its content is based on surveys of the chemical, pharmaceuticals, plastics and rubber industries, as well as refineries. This is a special additional economic summary containing the outcome for April and the forecast for May.

IKEM
Innovations- och kemiindustrierna i Sverige

Generally speaking, the chemical industry fared relatively well during the early part of 2020. This was clear from IKEM's economic summary for the first quarter of the year, although production conditions varied greatly across subsectors. The most cyclical sectors, plastics and chemicals, saw a marked drop in demand in March in the wake of the coronavirus crisis. At the other end of the scale, the pharmaceuticals industry experienced increased global demand.

APRIL BETTER THAN EXPECTED, BUT POORER FORECAST FOR MAY

The overall forecast provided by the IKEM companies for April in the first economic summary of the year indicated that production volumes would fall slightly. The results now available show that, in fact, production volumes remained unchanged in April for the IKEM industries as a whole (index 100). The trend for chemicals and plastics production was negative, at index 85, but not quite as weak as the companies forecast (index 72). However, the average figure hides a large number of small to medium-sized companies producing plastics and chemicals that experienced very large falls in production during the month.

May looks set to be a worse month for the IKEM companies. The forecast production volumes, which the companies submitted one week into the month, indicate an accelerating decline in May for producers of plastics and chemicals (index 78). Even with the inclusion of refineries and pharmaceuticals, the forecast still indicates a fall in production for the month (index 87).

IKEM INDUSTRIES' GLOBAL VALUE CHAINS INTACT

It is a major concern, of course, that demand is falling for a large proportion of the IKEM companies and it would have been even more worrying if the companies had also been hit by a breakdown in global value chains. If local or national production cuts/excessive global demand/cross-border trade problems, etc., as a result of the coronavirus crisis had meant incoming raw materials and input goods failed to arrive on time, or at all. The majority of companies are experiencing some disruption, but not of a more serious nature. The IKEM companies have therefore not had to refuse any incoming orders as yet because of insufficient raw materials or input goods.

WILL THE CHEMICAL INDUSTRY SURVIVE THE CORONAVIRUS CRISIS?

The coronavirus crisis is causing shockwaves throughout the global economy. There is also a great deal of uncertainty about the time horizon for when the world's econo-

FIGURE 2. ASSETS SIDE IN APRIL: HOW WERE DELIVERIES OF RAW MATERIALS/INPUT GOODS TO YOUR PRODUCTION FACILITIES AFFECTED BY CORONAVIRUS?

Source: IKEM

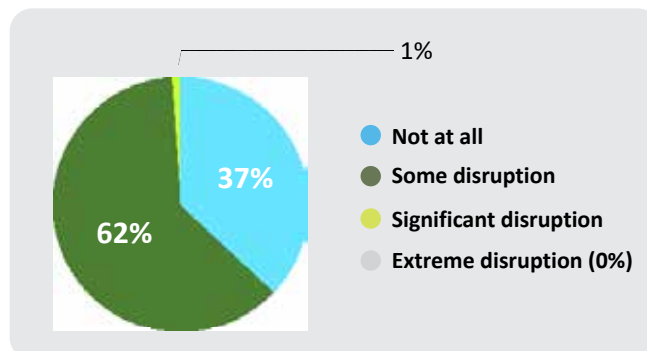


TABLE 1. ON A SCALE OF 1 TO 10, HOW DO YOU ASSESS THE COMPANY'S ABILITY TO RIDE OUT THE CORONAVIRUS CRISIS?

Source: IKEM

	Weighted	Unweighted
Clearly negative	0%	4%
Neutral	26%	24%
Clearly optimistic	73%	72%

mies will be able to return to something resembling normal. Expert analysts are increasingly extending the period that COVID-19 will affect our way of life and, as a result, economic activity. Without going into detail about the length and extent of the coronavirus crisis, which is extremely uncertain in any case, a majority of the IKEM companies say that they believe they can ride it out. Large parts of the IKEM collective are likely to see a continued increase in demand for their production, while other companies, despite clearly declining demand, are surviving thanks to a strong balance sheet and rapidly implemented measures to reduce the companies' overheads. The proportion of companies that strong believe in their company's ability to ride out the coronavirus crisis is roughly the same weighted as unweighted; in other words the size of the company does not make any difference. However, one in four companies is not quite as certain that they will come through the crisis. Some small businesses (unweighted) also considered their chances of surviving the coronavirus crisis to be very slim.

SHORT-TIME WORKING RATHER THAN REDUNDANCIES

Only a small proportion of the total workforce of the IKEM companies was negatively affected by the coronavirus crisis in April. Those companies that suffered major falls in production used short-time working as a measure to reduce costs. Approximately 8% of the total workforce (unionised staff and salaried employees) within IKEM were put on short-time working in April. The proportion at those companies producing plastics and chemicals was 16%. Redundancies and notices of termination are occurring, but to a much lesser extent. The net figure for all companies showed that the number of redundancies and notices of termination was largely offset by the number of new employees in April. The forecast level of short-time working in May is the same as in April.

SWEDISH CORONAVIRUS STRATEGY GETS FULL MARKS

The different approach taken by Sweden compared with the rest of the world, using predominantly voluntary social distancing to stop COVID-19, is being hotly debated around the world. The alternative, using varying degrees of lockdown inspired by China's initial methods to halt the spread of coronavirus, is the method used by the majority of Western countries. The debate about which is the more preferable strategy from an overall health and socio-economic perspective will no doubt continue for many years to come. Based on the knowledge available so far, however, 80% (unweighted) of the IKEM companies' leading representatives believe that the Swedish coronavirus strategy has been the best. Overall, the companies give the Swedish coronavirus strategy more or less full marks.

GOVERNMENT "BRIDGING PACKAGE" APPROVED

There is relatively broad agreement in Sweden with the Swedish government launching its many necessary support packages aimed at industries and companies affected by the coronavirus crisis, even if it was somewhat late in doing so. There are many different views, on the other hand, with regard to the precise structure and focus of the financial support. As already reported, a number of IKEM companies have also found themselves needing the various kinds of "bridging support" that have been made available. This is mainly in relation to companies implementing short-time working for staff. When asked to grade the government's economic rescue package, 16% of the IKEM companies' representatives award it a fail, while 40% consider it satisfactory. Less than half think that the strategy is really good.

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 325 billion in 2019. 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.



If you have any questions, please contact:

Carl Eckerdal, Chief Economist
070-497 11 98
carl.eckerdal@ikem.se

IKEM

Innovation and Chemical Industries in Sweden
Innovations- och kemiindustrierna i Sverige
Box 55915 | SE 102 16 Stockholm | Sweden
www.ikem.se