

Economic summary

FIGURE 1. IKEM INDEX FOR THE PERIOD Q3 2016–Q2 2020 FOR DOMESTIC SALES AND EXPORTS. AN INDEX VALUE BELOW 100 INDICATES A SLOWDOWN (CONTRACTION) IN VOLUME.

Source: IKEM



The chemical companies believe the tide has turned in the coronavirus crisis – but recovery will take time

During April and May, one-fifth of the export value of Swedish industry was wiped off. There is a great deal of variation, however, in terms of how individual companies and industries have been affected by the coronavirus crisis. Now most of the companies within the chemical industry believe that the largest falls in demand and production are behind us, but recovery to pre-coronavirus levels is expected to take a long time. ►

Not since the Great Depression of the 1930s have the world's economies suffered such a severe setback as the one coronavirus caused in the spring of 2020. The reduction in global GDP is likely to be as much as 6–8% for 2020 as a whole. The fall in GDP is concentrated in particular in the second quarter, when the pandemic was in full swing and economies closed down all over the world as a result. Global trade volumes fell by as much as a fifth (at annual rate) during April and May. The virtual closing down of economies also pushed unemployment up to double digits in the OECD countries and elsewhere.

The largest falls in demand and production are probably now behind us. Leading indicators from almost all parts of the world show that the trough has been passed and that trends are now heading in the right direction. The more optimistic scenarios suggest that the wheels of the global economy will be able to start turning a little faster during the second half of the year. As the turnaround is beginning from low production volumes, however, it will take several years to recover the production losses from the first half of the year. Unemployment and the resulting reduction in purchasing power are factors that threaten to delay the recovery. There is also a high risk of setbacks, such as if the spread of infection were to rise rapidly again.

For the Swedish export industry, the result for April and May is that 20% of the industry's export value (at annual rate) was wiped off by the coronavirus pandemic. The automotive industry suffered by far the largest fall of just over 60%. Excluding the automotive industry, industrial exports (SNI 10–32) fell by 13% during April and May.

For the one-fifth of Swedish goods exports that are produced by IKEM's member companies, industries within the chemicals, plastics and rubber, refinery and pharmaceuticals segments (SNI 19–22), the overall trend during the coronavirus crisis has not been as dramatically negative. This is largely because of continued export growth recorded by the pharmaceuticals companies. The increase in value terms was over 26% during April and May for the pharmaceuticals industry.

The plastics and rubber industry is the IKEM industry that has suffered the most according to Statistics Sweden's export statistics. Companies that supply the automotive industry have fared particularly badly (-14% during April and May). This can also be seen in the figures reported by the companies for the IKEM index for the second quarter. Some individual companies report losing more than 25% of their deliveries during the quarter.

The result for chemical, plastics and rubber companies as a whole is an export index of 78 during the second quarter, which is a clear decline as an index value of 100 indicates zero growth and everything below that is a contraction. This weak performance is the result of the fall in global demand that has followed in the wake of the coronavirus crisis. The IKEM companies' exports are, after all, largely input goods for other industrial production.

While a majority of the plastics, rubber and chemical compa-

TABLE 1. IKEM INDEX FOR Q2 2020 BROKEN DOWN FOR IKEM IN TOTAL AND FOR CHEMICAL AND RUBBER/PLASTICS PRODUCTION (EXCLUDING PHARMACEUTICALS AND REFINERIES). AN INDEX VALUE OF 100 CORRESPONDS TO THE DIFFERENCE BETWEEN GROWTH AND CONTRACTION.

Source: IKEM

	IKEM total	Chemicals and rubber/ plastics
Domestic deliveries	81	76
Exports	81	78
Employees	98	97
Investment	85	85
Raw material costs	87	86
Operating margin	83	84

TABLE 2. HAS THE NEGATIVE IMPACT OF CORONAVIRUS ON YOUR COMPANY'S SALES PASSED THE TROUGH IN YOUR OPINION?

Source: IKEM. Responses are unweighted. The responses are from the first half of July.

Yes, we believe the trough has been passed	32%
No, it is 1–2 months in the future	40%
No, it is 2–4 months in the future	7%
No, it is 4–6 months in the future	13%
No, it is 6–8 months in the future	8%
No, it is more than 8 months away	1%

nies have experienced a fall in demand, others are struggling to deliver due to an increase in demand for their products. This is particularly true of packaging companies within the plastics industry. Rarely has the variation in operating conditions between individual IKEM companies and industries been greater.

IKEM's other two industries – pharmaceuticals and refineries – are also pulling in different directions. The pharmaceuticals industry is facing increased global demand, from already high volumes, while refineries are being weighed down partly by reduced demand in the wake of coronavirus lockdown within the airline and transport sectors. For IKEM as a whole, the export index for the second quarter closed at 81.

COMPANIES BELIEVE THE TROUGH HAS BEEN PASSED

The coronavirus crisis has been ongoing for almost six months

and will continue to affect the world's economies for the foreseeable future. According to an absolute majority (72%) of the IKEM companies, however, the "coronavirus trough" was passed at the end of August. A third of the companies expect the turnaround to be slightly further in the future, some as much as 6–8 months away. If the majority are right, we may already be on the long road back towards pre-coronavirus production volumes. For a majority of the country's thousands of IKEM companies, however,

TABLE 3. HOW MUCH INFLUENCE DOES THE WORLD MARKET PRICE FOR CRUDE OIL HAVE ON YOUR COMPANY'S COSTS FOR PURCHASING INPUT GOODS/RAW MATERIALS?

Source: IKEM economic summary, Q4 2019

Absolutely crucial influence	31%
Extremely significant influence	15%
Significant influence	13%
Some influence	35%
Little influence	7%
Don't know	1%

er, the end-of-year figures for 2020 will show a declining turnover compared with previous years.

Declining profitability, as illustrated by the index value of 83 for Q2, is entirely consistent with large falls in demand. Few companies are able to balance a fixed cost base against declining demand in such a short time, resulting in reduced profitability. Lower input/raw material costs did provide some relief for the IKEM companies during spring, however, largely thanks to the record fall in crude oil prices.

During the most dramatic period of the coronavirus crisis in March and April, the spot price of Brent crude oil fell to a low of USD 20/barrel, after which it began to recover, reaching around USD 45/barrel today. The price of crude oil plays a very important role for the overall purchasing costs of just under 60% of the member companies. It is naturally a particularly welcome development to see the costs of raw materials/input goods fall in a situation with the worst imaginable conditions for increasing delivery prices.

In addition to the purely USD-based fall in crude oil prices, since the end of March the Swedish krona, SEK, has also recovered last year's loss of value against USD and EUR. This has had a positive impact on earnings for a large portion of the IKEM collective. It is true that for one-third of the IKEM companies (weighted), the value of SEK does not have any major influence on profit and loss. These companies have a neutral relationship with changes in the SEK exchange rate. For just under half of the member companies,

FIGURE 2. SPOT PRICE TREND FOR BRENT CRUDE OIL. USD/BARREL.

Source: Macrobond

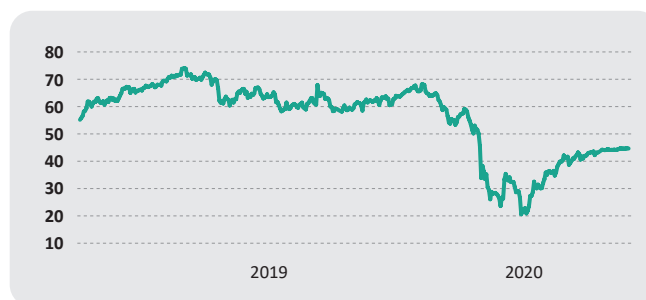
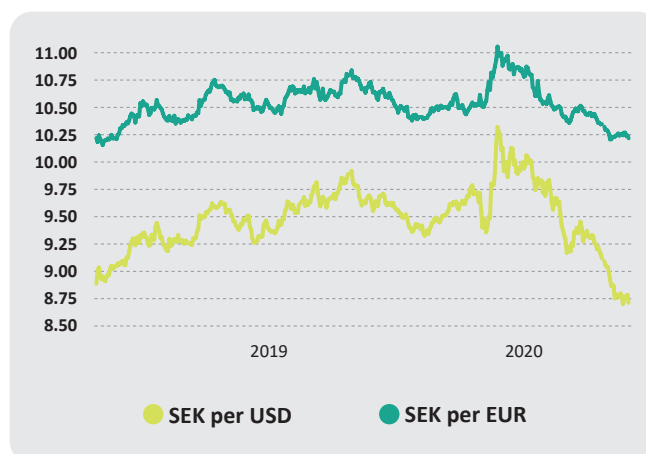


FIGURE 3. SEK VALUE TREND IN RELATION TO USD AND EUR.

Source: Macrobond



on the other hand, a stronger SEK appears favourable from an earnings point of view. Just under one-fifth of the companies suffer a negative impact from a strengthening of the krona.

FEWER COMPANIES GIVE THE SWEDISH CORONAVIRUS STRATEGY TOP MARKS

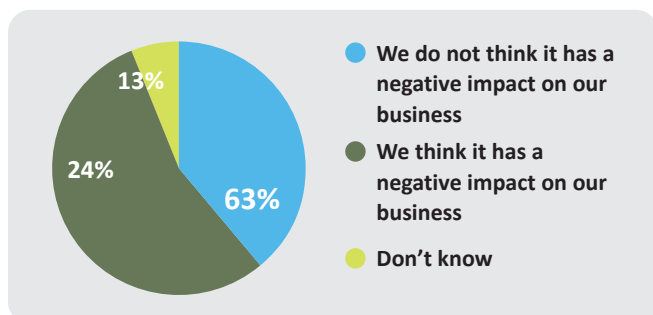
The Swedish coronavirus strategy, which is based on voluntary social distancing, has prompted astonishment and debate throughout the rest of the world. Within Sweden, however, it was broadly backed initially by both the general public and business. The debate has now been ignited within Sweden, however, partly because the country's extreme position has put it on the quarantine list of many other European countries. The leading representatives of the IKEM companies have also re-examined the issue. In April, the proportion of companies giving the Swedish coronavirus strategy top marks was as high as 80% (unweighted). The rating has fallen since then, as the benefits of the approach have not been quite so obvious. In July, the proportion of IKEM representatives giving the Swedish coronavirus strategy a "strong pass" is down to 56%.

ONE IN FOUR IKEM COMPANIES CONCERNED ABOUT SWEDEN BEING ON THE QUARANTINE LIST

Something that has begun to worry companies in export-dependent industries in some quarters is that the Swedish strategy, with high infection rates and high death rates, will have a negative impact on export and business opportunities, as well as on the desire to invest in Sweden. When asked, one quarter of IKEM companies (unweighted) expect Sweden being on the quarantine list to have a negative impact on their business. They highlight in particular the fact that their chances of new orders or business deals are reduced if their sales staff are unable to meet customers locally. When assessing the effect of the Swedish coronavirus

FIGURE 4. HOW DO YOU SEE YOUR COMPANY'S OPPORTUNITIES TO DO BUSINESS IN VIEW OF THE SWEDISH CORONAVIRUS SITUATION AND SWEDEN BEING ON THE QUARANTINE LIST IN MANY COUNTRIES?

Source: IKEM. Responses are unweighted.



strategy on the willingness to invest in Swedish production units, however, only 16% (unweighted) see any risks associated with the Swedish approach.

FEW REDUNDANCIES

Despite large reductions in volume at many of the IKEM companies, the number of people employed has remained more or less unchanged overall. The number of redundancies and notices of termination has been offset by an equal number of new employees.

The main reason why the number of redundancies has not been higher is that the companies have been given the opportunity to implement short-time working. Just over one in ten employees (12%) were put on short-time working in the first half of July. If the companies' forecasts for the third quarter, which predict a shift towards higher production rates as reported above, prove accurate, this will reduce the need for short-time working. There is no doubt that the government's rescue package has saved thousands of jobs among the IKEM companies.

STRICTER NEW PROCEDURES TO COMBAT THE RISK OF INFECTION

The coronavirus crisis has brought about profound changes in many different ways. From a purely practical perspective, the country's hundreds of thousands of companies have had to introduce new procedures and working methods. Nine out of ten IKEM companies have introduced new hygiene practices, often from already very high levels, with the pharmaceuticals industry in particular already among the most hygienic before the pandemic struck.

Six out of ten companies have increased the frequency of cleaning, one in three companies have introduced greater use of protective clothing and one in four companies have increased shift working so that fewer employees are on site at the same time. A smaller number of companies (7%) have introduced the measurement of the body temperature of staff.

TABLE 4. HAS YOUR COMPANY INTRODUCED SPECIFIC PROCEDURES TO REDUCE THE RISK OF INFECTION SPREADING? MULTIPLE ANSWERS POSSIBLE.

Source: IKEM

Increased shift working	28%
New hygiene practices in changing rooms, etc.	86%
New/greater use of protective equipment	34%
Enhanced cleaning	57%
Measurement of temperature of staff	7%

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.



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