ECONOMIC SUMMARY

FIGURE 1. **IKEM INDEX FOR THE PERIOD Q3 2016–Q1 2021 FOR DOMESTIC SALES AND EXPORTS (VOLUME AT ANNUAL RATE). AN INDEX VALUE BELOW 100 INDICATES A SLOWDOWN (CONTRACTION).**
Source: IKEM

Strong growth in the chemical, plastics and rubber industries, but shortage of plastic raw materials causes concern

In Q1 2021, major differences were apparent between the subsectors comprising the one-fifth of Swedish industry accounted for by chemical-related production. The chemical, plastics and rubber industries are experiencing a strong growth phase, with an index of 121 (where a figure above 100 indicates growth), while the pharmaceuticals industry and refineries are at an index of 90, which indicates a decline compared with Q1 2020. At the same time, the availability and increased prices of plastic raw materials are causing concern.

When asked at the beginning of the year to give their forecast for Q1 2021, the representatives of IKEM's member companies predicted different trends for the different industries, as described in IKEM's previous economic summary. This was borne out by the development during the quarter, a period that told two different stories.

With the global industrial economy now heading in the right direction, things are looking positive for the Swedish chemical, plastics and rubber industries because these industries are a key supplier of input goods to other sectors, such as the automotive and food industries. For the vast

majority of the chemical, plastics and rubber companies, the optimism they showed in the economy at the turn of the year has proved justified. For a third of the companies, the outcome was even better than the order books indicated at the turn of the year. Consequently, production has been ramped up and a large number of companies have hit the ceiling of 100% capacity utilisation. The average capacity utilisation rate for the chemical, plastics and rubber industries as a whole was 84% at the beginning of Q2, compared with a figure of 76% for Q2 2020.

The growth rebound has created delivery and supply problems, particularly in relation to plastic raw materials. Supply is being hampered globally by a standstill at a major production unit in the USA, owing to electricity shortages following a cold snap in February. Disruptions to international shipping are also affecting the supply of plastic raw materials. Seven out of ten chemical, plastics and rubber companies in Sweden have felt the effects of this in different ways. Among dedicated plastics and rubber manufacturers, the proportion is even higher.

The impact has been seen in the form of sharply increased prices or, more seriously, a shortage of supply. Among the 70% or so of companies affected, 86% say that they are experiencing problems sourcing sufficient plastic raw materials. In addition, 59% said they had faced sharply increased purchasing costs.

The cost trend index for Q1 was 129 for the chemical, plastics and rubber companies, compared with a slight decrease at annual rate (index of 96) in raw material/input good costs for pharmaceuticals and refineries.

The cost trend in the chemical, plastics and rubber industries is part of a general commodities price rally, which may affect the future general inflation trend. Transport costs have also increased significantly in the wake of the global recovery during the second half of the year.

There are limits, of course, on how long the industry is generally prepared to act as a buffer by absorbing some or all of these cost increases. The question, therefore, is can the Swedish chemical, plastics and rubber companies pass on their own cost increases to the next stage of the industrial process? The companies believe the answer is yes, but in the vast majority of cases only to a partial extent. A little over 60% of the companies expect to be able to pass on some of the cost increases, while only a quarter of the companies expect to be able to pass on the entire increase. One in ten companies expects to be unable to compensate for the increases at all, partly because they are stuck in long-term contracts. For the majority of the companies, the cost increases are therefore putting a certain amount of pressure on margins. Currently, this is partly compensated by high production levels at the factories. However, if these costs continue to rise, both industrial customers and ultimately consumers will have to be prepared for rapidly rising inflation. The increase may only be temporary, however, should the inflation rate slow once supply and demand are more smoothly aligned again.

The chemical, plastics and rubber companies expect sales volumes to continue to rise over the next six months, as indicated by an index of 111. Compared with the outcome in Q1 (index of 121), two-thirds of which was also against "pandemic-free" comparison months in 2020, an index of 111 for the next six months (Q2 and Q3) may appear cautious. The raw materials constraints and delays in global logistics systems described above are two of the reasons for this relatively cautious forecast. As many as 89% of the companies believe that the general global supply problems will have a

FIGURE 2. **DO YOU THINK YOUR COMPANY'S PRODUCTION WILL BE NEGATIVELY AFFECTED DURING THE SECOND QUARTER OF THE YEAR AS A RESULT OF THE GLOBAL SUPPLY PROBLEMS?**

Responses only from the chemical and plastics and rubber companies.
Source: IKEM

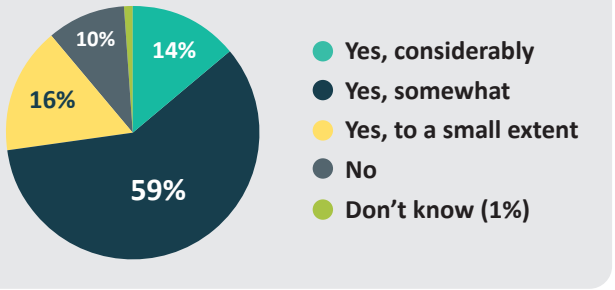


TABLE 1. **IKEM INDEX BROKEN DOWN BY "SECTOR". AN INDEX OF 100 CORRESPONDS TO AN UNCHANGED LEVEL, MEASURED AT ANNUAL RATE.** Source: IKEM

	Domestic deliveries, volume	Deliveries to the export market, volume	Number of employees	Investment	Cost of purchasing raw materials/ input goods	Profitability of the company (EBIT margin)
Chemicals/rubber/plastics	117	121	96	109	129	115
Pharmaceuticals/refineries	97	90	106	98	96	116
Total	107	105	101	103	112	116

negative impact on their production potential during Q2, with 14% expecting a considerable negative impact (Figure 2). If a solution were to be found for the supply hubs in the near future, production growth would be stronger than forecast, although this is fairly unlikely. Another partial explanation for the cautious growth forecast for the next six months is that there was unchanged production (at annual rate) in Q3 2020. This makes the comparative figure slightly tougher than in Q2 2020, when the economy experienced a strong decline.

TENTATIVE START TO THE YEAR FOR PHARMACEUTICALS/REFINERIES

The year began a little more tentatively for the refinery and pharmaceuticals industries, although this had been expected. Partly because of the forecast made in January and partly because the pharmaceuticals industry in particular had to live up to high comparative figures from 2020. Even the weak forecast proved too optimistic, however, with the quarter ending worse than anticipated for as many as 60% of the companies. The pharmaceuticals industry in particular has established high production/sales levels for a number of years. It is therefore unsurprising that the industry is now taking a temporary growth break.

Over the next six months, the pharmaceuticals and refinery companies are expecting cautious volume growth, as indicated by an index of 108. For the pharmaceuticals industry, the comparison is with a Q2 in 2020 with very strong volume growth, followed by a Q3 that saw negative development. The figures presented here by IKEM are also supported by the official export statistics for the period.

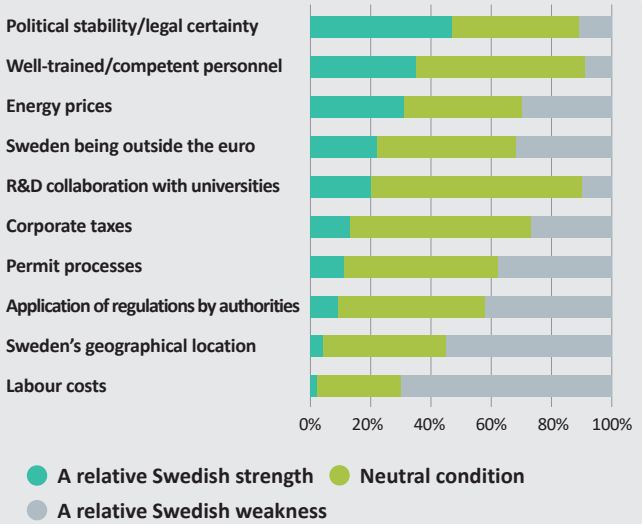
HOW DO THE CHEMICAL AND PHARMACEUTICALS INDUSTRIES VIEW SWEDISH PRODUCTION CONDITIONS?

Sweden is one of the world's leading industrial nations and industry is of great importance for the construction of the Swedish welfare state. This has been the case since the early 20th century and is still true now. At the same time, however, global competition has never been as fierce as it is now that information technology has largely erased the significance of national borders. This means that the overall production conditions for Swedish industrial companies must be such that future investments are made here in Sweden and not in countries which have more favourable production conditions.

Just over 20% of Sweden's industrial offering consists of products from IKEM's member companies. The chemical, plastics and rubber companies are key suppliers to both Swedish and foreign customers. The pharmaceuticals industry is the Swedish industry with the single highest value-added rate and it provides work for thousands of highly qualified researchers and employees around the country. It is therefore interesting to see how these industries collectively view the production conditions in Sweden compared with competing production countries.

FIGURE 3. **BASED ON YOUR COMPANY'S PRODUCTION IN SWEDEN, HOW WOULD YOU DEFINE SWEDISH OPERATING CONDITIONS RELATIVE TO THE REST OF THE WORLD (YOUR MAIN COMPETITOR COUNTRIES)?**

Unweighted responses from 126 business leaders. The companies had combined sales of SEK 240 billion in 2020. Source: IKEM



In order to identify Sweden's position in global competition, the companies were asked to indicate both what they consider to be a relative Swedish strength and what is a relative Swedish weakness (Figure 3). To provide clarity on the Swedish strengths and weaknesses, we also report the "net figures" for each parameter. This is the proportion of companies that believe Sweden has a relative advantage in the "condition" in question, minus those companies which, in contrast, consider that Sweden has a relative disadvantage (Table 2). The higher the positive number, the more clearly a condition is in Sweden's favour, with the opposite true of large negative numbers.

LEGAL CERTAINTY AND WELL-TRAINED PERSONNEL ARE SWEDISH STRENGTHS

Two areas where Sweden has obvious strengths, and which are also accorded great importance by the companies, are political stability/legal certainty and well-trained personnel. Both areas record positive net figures. The clearest outcome is for political stability and legal certainty. Sweden is also well positioned with regard to R&D collaboration with universities. At the same time, R&D collaboration is considered slightly less important by the companies than the two conditions previously described.

The net figure for energy prices is only 1%. This basically means

that current energy prices give Sweden neither an advantage nor a disadvantage. As many as 80% of the companies consider the cost of energy to be of great importance and this issue has been rising on the companies' agendas in light of the energy shortage and the large temporary price increases in central and southern parts of the country in recent years. The issue of electricity supply is also a hot topic, given the industry's focus on achieving carbon-neutral production. Over the coming decades, it will contribute to a more or less doubling of Swedish demand for electricity. It is therefore reasonable that the availability and price of electricity should be at the top of Swedish politicians' agendas. A secure and stable electricity supply is extremely important for the competitiveness and willingness to invest of Swedish industry.

Sweden being outside the euro returns a net figure of-10. A majority of the companies basically believe that it would be preferable for Sweden to be part of the eurozone. At the same time, the question is allotted the single lowest figure for importance in this survey of various Swedish production conditions.

SWEDISH AUTHORITIES NEED TO INCREASE THEIR EFFICIENCY

The complete opposite applies to the application of regulations by the Swedish authorities and permit processes. Sweden is clearly worse here than competing countries (illustrated by the net figures of-33% and-27%). These two conditions are of great importance to the companies, particularly as Swedish industry is now planning a major green transition. Another problem is that things have not changed much from IKEM's previous two surveys in 2018 and 2019. It is unfortunate that Sweden has been unable to move in the right direction in these two important areas. In the worst-case scenario, continued problems with long and often arbitrary processes may result in the industry's investments being made in countries where the authorities act more efficiently and predictably than they do in Sweden.

Sweden's geographical location and high labour costs are the biggest issues among the production conditions. Sweden's geographical location, a long distance from the market, is definitely a negative according to the large proportion of companies that sell most of their production beyond Sweden's borders. At the same time, only 46% consider this to be a very important factor.

Sweden's high labour costs score even worse.This is the single factor where Sweden ranks furthest from its competitor countries according to the IKEM companies. It is also a factor that is considered extremely important by a clear majority of the companies. At the same time, the chemical and pharmaceuticals companies that operate internationally clearly still value their Swedish production facilities and their employees in Sweden, as they continue to operate here. Nevertheless, continuous efforts must be made, of course, to improve all operating

TABLE 2. SWEDISH COMPETITIVE CONDITIONS

The net figures are the proportion that indicated a Swedish strength minus the proportion that indicated a Swedish weakness. The proportion of the companies that consider the conditions to be of great or very great importance in the overall competitiveness assessment of the companies. Source: IKEM

	Net figure	Condition is of great importance according to:
Political stability/legal certainty	35%	86%
Well-trained/competent personnel	26%	86%
R&D collaboration with universities	11%	55%
Energy prices	1%	80%
Sweden being outside the euro	-10%	26%
Corporate taxes	-14%	66%
Permit processes	-27%	73%
Application of regulations by authorities	-33%	71%
Sweden's geographical location/ proximity to the market	-50%	46%
Labour costs	-67%	75%

conditions in Sweden. High labour costs are compensated in part by a high level of education and a well-functioning labour market. Sweden cannot continue to run out of step with the rest of the world in terms of wage growth rates, though, especially if the productivity of Swedish industry is unable to outperform that of other countries. Nor can Sweden afford to score negatively for other conditions. Given the major industrial investments that lie around the corner in Sweden and the rest of the world, there is no time to lose when it comes to improving Swedish production conditions – this is the reality of the global world in which industry lives. New victories must be achieved every day.

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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