

Global chemical markets: Slow recovery on the horizon

Overall economy

In Q1 2024, the global economy only grew at a moderate pace. In fact, the prospects for private consumption improved, because real wage levels tended to rise. However, this was partly to the detriment of companies' profit margins, which slowed down investment. The interest rate level and thus financing costs remained high. Moreover, increasingly interventionist industrial and trade policies weighed on the global economic climate. Emerging economies continues to develop more dynamically than advanced industrial nations.

Industry

Global industrial production exceeded the previous quarter's figure in early 2024. The increase also remained stable compared to the previous year. It is worth noting that this development was not attributable to the industrialised countries but to emerging economies – above all China. In the major industrialised nations, production was once more reduced compared to the previous quarter, and the previous year's level was missed. Quite frequently, industry is still a long way from dynamic growth.

Chemicals/Pharmaceuticals

Global chemical production improved over the previous quarter. In fact, the industry's business situation remains weak – but empty stocks brought a production increase for chemistry. After the spikes of the corona years, pharmaceutical output is back on the normal growth path in many countries. However, the volatility in pharma production is high.

Outlook

A strong recovery is still not in sight. In overall economic terms, the global economy should stagnate in 2024 and 2025, with the differences between national economies slowly diminishing. Uncertainty in geopolitics causes most risks to the future outlook.

For the industry, we are anticipating slight recovery trends in many countries so that global growth should be higher again. But overall, growth rates in the industry are likely to remain modest. Especially for Europe, we are expecting an increase only in the next year. In the USA, too, industrial production should grow not before 2025. Now as in the past, the strongest growth rates are recorded in China, albeit the momentum in China's industry tends to drop.

In consequence, the demand for chemical products worldwide improves only slowly. After the major slumps of previous years, we are expecting growth rates to return – while there is still a long way to go to the "old" levels.

June 2024

- ◆ **Global economy:**
moderate growth
- ◆ **Industrial production:**
heterogeneous development
- ◆ **Chemicals/Pharmaceuticals:**
Slight recovery/normalisation
- ◆ **Outlook:**
Slow recovery

Chemical and Pharma production

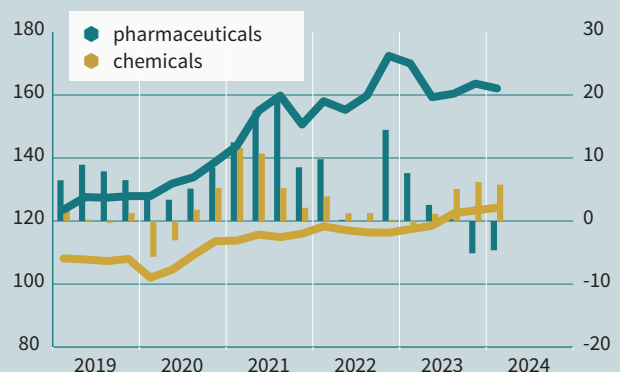
By regions, seasonally adjusted, 1st quarter 2024, change against previous year and previous quarter in percent

	chemicals		pharmaceuticals	
	yoy	qoq	yoy	qoq
World	+5.8	+0.6	-4.6	-0.9
Europe				
EU	+0.6	+1.2	-14.3	-7.5
Germany	+5.4	+6.4	+2.6	+7.0
Russia	+7.7	+1.8	+8.7	+1.2
Americas				
USA	-0.5	+0.9	+1.6	+0.6
Brazil	-0.8	-0.9	-16.1	+2.4
Asia				
Japan	-2.7	-1.0	+3.1	-1.9
South Korea	-3.1	-5.1	+15.1	+13.9
India	-0.1	+4.4	+1.1	-0.7
China	+9.5	+0.3	-1.6	+4.2

Sources: Chemdata International, VCI

Plus in chemical production

Production, seasonally adjusted, Index 2021 = 100 (left axis), changes against previous year in percent (bars, right axis)



Sources: Chemdata International, VCI

Only moderate growth of global economy

In Q1 2024, the global economy only grew at a moderate pace. In fact, the prospects for private consumption improved, because real wage levels tended to rise with falling inflation rates. However, this was partly to the detriment of companies' profit margins, which slowed down investment. It was still too early to cut interest rates due to the consistently high level of inflation. Financing costs therefore remained high. Uncertainties in connection with increasingly interventionist industrial and trade policies also weighed on the global economic climate. Momentum in the individual regions continued to vary. In particular, industrial activity remained weak in the developed national economies, while it picked up in many emerging markets. But overall, the business situation of industry was once more less dynamic than the economy as a whole.

There are still no signs of a rapid, noticeable recovery. All in all, the global economy is likely to stagnate in the forecast years. We expect to see slight recovery trends in many countries for industry and thus also for the chemical sector, meaning that global growth will be higher again. The differences between national economies should slowly diminish. Uncertainty in geopolitics is the main risk to the future outlook.

Europe's economy started the new year with at least some growth. After two stagnating quarters, growth was 0.3 percent compared to the previous three months. For the first time, developments in the major countries again pointed more or less in the same direction. Spain once more led the way with growth of 0.7 percent. Germany and France grew by 0.2 percent while Italy saw growth of 0.3 percent.

The economy should gain in speed slightly in the course of 2024. While a strong recovery cannot be expected, improvements will be driven by the better global economic environment and falling inflation. Monetary policy is still having a dampening effect for the time being. The competitive

position of companies also remains tense due to high costs at the location. Industry will be unable to return to positive growth rates before 2025.

The **US economy** continued to grow in Q1 2024 (+0.4 percent against the previous three months). However, growth was significantly less dynamic than in previous quarters and fell short of expectations. Private and public consumption were weaker than back in 2023 but continued to contribute to growth. Construction investment was another growth driver. By contrast, equipment investment stagnated. Negative impulses came from the export business.

Overall, growth is likely to weaken this year and next. Inflation is still too high. Consequently, decisions to cut interest rates are postponed further. The labour market is cooling. Altogether, this combination of factors should curb consumption and investment.

The GDP of **China** grew by 1.6 percent in Q1 2024 compared to the previous quarter, which was somewhat more dynamic than had been expected. Growth was driven by high levels of government investment. Developments did not remain untroubled. The real estate crisis is not over, and consumer confidence is weak in general.

Momentum in China's economy is likely to weaken further in the current year. The property market remains in crisis and uncertainty among private households is weighing on demand. In addition, there is a structural decline in the demand for housing due to demographics. Companies are unsettled by the large number of regulatory measures and US sanctions; this should adversely affect the investment demand. The shrinkage of the workforce is likely to lead to a skills shortage in the coming years. The slightly improved outlook for the global economy provides only little positive impetus for the export sector.

National economic indicators:

GDP, industrial and chemical production, changes against previous year in percent, forecasts for 2024/2025

	GDP			Manufacturing			Chemicals (excl. Pharma)		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
World	2.5	2.4	2.4	2.0	2.4	2.6	2.9	3.4	2.6
Europe									
EU	0.5	0.7	1.2	-1.0	-1.5	1.5	-8.1	0.5	2.5
Germany	0.0	0.2	1.0	-0.5	-2.0	1.5	-10.1	5.0	2.0
Russia	3.6	2.6	0.8	7.4	3.5	1.0	4.6	3.5	1.5
Americas									
US	2.5	2.2	1.2	-0.6	0.0	1.5	-1.3	0.5	2.0
Brazil	2.9	1.2	0.9	-0.9	2.0	2.0	-5.8	0.0	2.0
Asia									
Japan	1.9	-0.2	1.0	-1.3	-2.0	1.5	-6.4	-1.0	1.0
South Korea	1.3	3.0	2.0	-2.6	3.0	1.5	-9.6	-2.0	4.5
India	7.7	5.4	6.1	5.3	3.5	3.5	-0.2	3.5	4.0
China	5.5	4.6	4.0	4.7	5.0	4.0	9.6	5.0	4.0

Sources: Feri, Chemdata International, forecasts 2024 and 2025: VCI

Industrial production

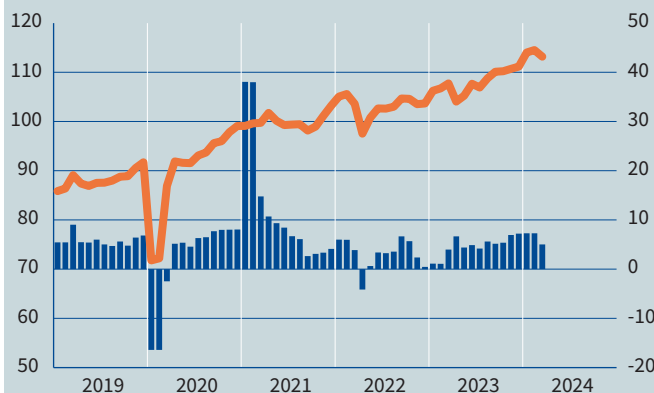
By regions, seasonally adjusted, change against previous year and previous quarter in percent

	2022	2023	1. quarter 2024	
			yoy	qoq
World	+2.9	+2.0	+2.9	+1.2
Europe				
EU	+3.3	-1.0	-4.1	-1.9
Germany	-0.5	-0.5	-4.8	+0.8
Russia	+0.3	+7.4	+8.6	+2.4
Americas				
USA	+2.7	-0.6	-0.4	-0.1
Brazil	-0.3	-0.9	+1.6	+1.0
Asia				
Japan	+0.0	-1.3	-4.4	-5.2
South Korea	+0.9	-2.6	+6.1	+0.1
India	+4.0	+5.3	+4.5	+2.8
China	+3.1	+4.7	+6.5	+2.7

Global industrial production exceeded the previous quarter's figure in early 2024. The increase also remained stable compared to the previous year. However, this development was not attributable to industrialised countries but to emerging economies - above all China. In the major industrialised nations, production was once again reduced compared to the previous quarter. The previous year's level was missed everywhere. In some emerging markets, things looked a little better. However, industry is still a long way from dynamic growth.

Chinas industry with a strong plus in the first quarter 2024

Industrial production China, seasonally adjusted, Index 2021 = 100, change against previous year in percent



China was the main driver of global growth in industrial production. In the first two months of 2024, industrial production in that country rose sharply in almost all sectors. Due to the strong weighting of China, global production in these sectors increased too. However, the situation did not remain untroubled. The expectations were already disappointed in March. Production fell significantly. Geopolitical uncertainties, only moderate improvements in the global economy and unsettled consumers and investors slowed down growth.

Customer industries worldwide

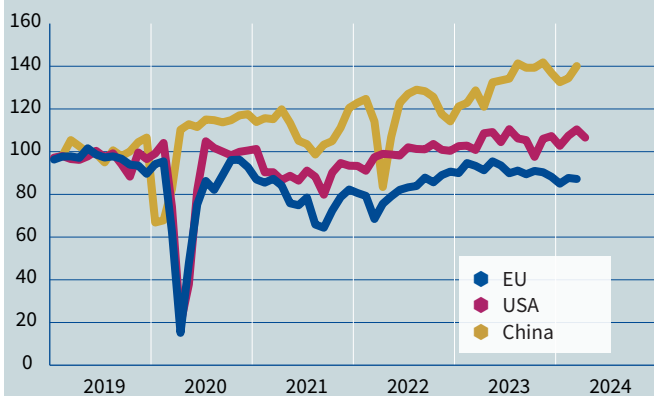
Industrial production by industries, seasonally adjusted, change against previous year and quarter in %

	2022	2023	1. quarter 2024	
			yoy	qoq
manufacturing industry	+2.9	+2.0	+2.9	+1.2
basic metals	+0.6	+5.3	+5.6	+2.4
fabricated metals	+0.7	+0.6	+1.1	+0.8
chemicals	+1.6	+2.9	+5.8	+0.6
pharmaceuticals	+5.9	+1.2	-4.6	-0.9
plastics processors	-0.9	-0.8	+3.8	+2.3
automotive industry	+6.1	+10.8	+2.6	-2.5
mechanical engineering	+3.1	+0.3	-1.5	+0.7
electrical appliances	+8.7	+9.2	+1.4	+0.1
electrical equipment	+5.9	-0.7	+9.0	+1.7
food and beverages	+1.6	+0.1	+1.8	+2.5
textile industry	-2.6	-2.2	+2.7	+3.4
furniture industry	-2.2	-6.9	+0.5	+2.5
paper industry	-0.6	-3.3	+5.0	+2.1
printing industry	-0.5	-5.0	-1.4	+1.7
glass/ceramic industry	-0.4	-2.3	-0.7	+3.2

The figures for global industrial production by sectors showed an upward trend in many of them in early 2024. Thanks to a more positive trend in key emerging markets – above all China – the previous quarter was exceeded. Steel production increased strongly again following the weakness in Q4 2023. Other inputs – such as metals, basic chemicals, rubber and plastic goods, paper and electronic components – also achieved an increase due to growth in emerging markets. But despite some improvement, the production of capital goods (machinery) lacked momentum. The lack of orders continued to be felt in all sectors: High inflation rates are curbing consumption and high interest rates are to the detriment of financing conditions for investments. Geopolitical conflicts are causing yet more uncertainties, resulting in an additional reluctance to invest and consume.

Heterogeneous developments in the automotive industry

Industrial production, seasonally adjusted, Index 2021 = 100 change against previous year in percent



The recovery process in global automotive production was not dynamic at the beginning of the present year. Overall, even the level of the previous quarter was clearly missed. In the USA, production increased again after the United Auto Workers (UAW) union ended its strike against the three major car manufacturers in Detroit. However, growth has recently come to a standstill. China's automotive industry had a weak start in 2024. Production only increased over the course of Q1 but altogether fell short of the previous quarter. Europe came last in terms of growth. Here, production was down on both the previous quarter and the previous year.

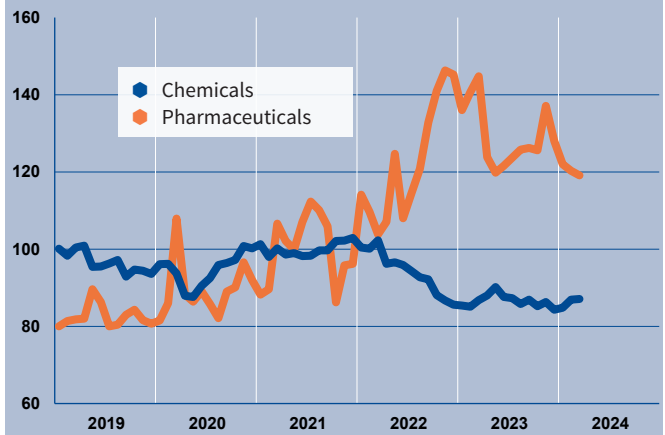
This means that developments in the three major carmaking regions remained mixed. Europe continues to lag behind - recently the gap to the USA and China has even widened again. Existing problems persist. The structural upheaval due to the transition to electromobility in the European automotive industry, problems in supply chains and also in production at suppliers as well as high energy and raw materials costs are slowing down developments. The demand situation remains bleak too. In view of the incentive programmes in the USA (IRA) and China (e-mobility promotion), this picture of different speeds could last.

EU: Customer industries
production, seasonally adjusted, changes in percent

	2022	2023	1. quarter 2024	
			yoy	qoq
manufacturing industry	+3.3	-1.0	-4.1	-1.9
basic metals	-4.3	-5.4	-3.7	-1.3
fabricated metals	+0.2	-1.9	-4.3	-1.7
chemicals	-5.7	-8.1	+0.6	+1.2
pharmaceuticals	+22.4	+5.8	-14.3	-7.5
plastics processors	-2.0	-4.4	-2.1	+0.4
automotive industry	+5.2	+11.4	-6.5	-3.6
mechanical engineering	+5.2	+0.9	-6.2	-1.6
electrical appliances	+3.7	+1.8	-9.5	-2.9
electrical equipment	+12.0	-8.4	-9.8	-3.7
food and beverages	+2.0	-1.3	+1.6	+2.4
textile industry	-1.2	-6.9	-4.8	-1.7
furniture industry	-0.8	-7.9	-6.4	-1.1
paper industry	-1.2	-9.7	+1.7	+2.5
printing industry	-2.5	-9.6	-4.7	-0.2
glass/ceramic industry	-0.1	-11.1	-7.7	+1.4
construction	+3.3	+1.1	-0.9	+0.2

Europe's industry remains in crisis mode. Production fell again at the beginning of 2024 and was also significantly lower than in the previous year. Almost all sectors are still moving backwards. Irrespective of falling energy prices, the competitive position of energy-intensive industries remained poor. Nevertheless, empty stocks brought them a plus. Weak private consumption led to production cuts in consumer-related industries. High interest rates slowed down the capital goods and construction industries.

EU: little momentum in chemistry – high volatility in pharma
chemical and pharmaceutical production, seasonally adjusted, Index 2021 = 100



For chemical production in the EU, the trend has been moving sideways rather than upwards for years. High energy and raw material costs then caused production cutbacks in 2022. The last few months did not bring any real recovery. However, production at least did not decline any further in early 2024. The chemical industry even recorded a small increase. However, the structural problems persist: The cost burden is still high and brings competitive disadvantages compared to other regions.

In the pharmaceutical industry, the brisk demand due to the coronavirus pandemic together with the strong vaccine production came to an end. Overall, however, the demand for pharmaceutical products is intact. This means that production is likely to return to normal - subject to the usual strong fluctuations.

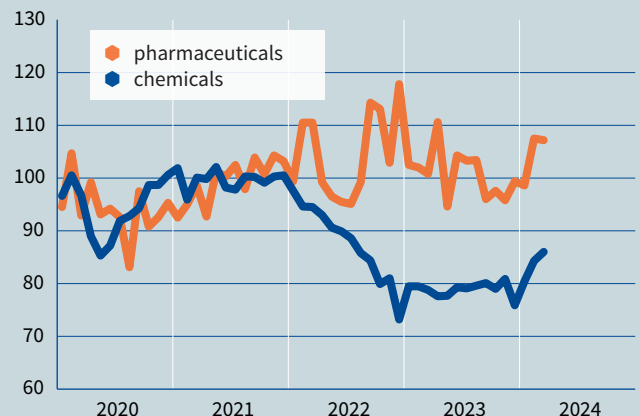
Germany: Customer industries
production, seasonally adjusted, changes in percent

	2022	2023	1. quarter 2024	
			gg. Vorjahr	gg. Vorquartal
manufacturing industry	-0.5	-0.5	-4.8	+0.8
basic metals	-3.8	-3.7	-2.3	+2.3
fabricated metals	-2.0	-3.1	-6.4	-1.9
chemicals	-11.9	-10.1	+5.4	+6.4
pharmaceuticals	+5.2	-3.5	+2.6	+7.0
plastics processors	-3.7	-5.8	-3.6	+1.4
automotive industry	+4.0	+12.2	-10.1	-3.6
mechanical engineering	+0.5	-0.7	-7.1	-1.8
electrical appliances	+2.4	-0.4	-14.6	-3.9
electrical equipment	+5.0	+2.0	-2.3	-0.2
food and beverages	+0.4	-2.8	+1.3	+4.8
textile industry	-6.9	-6.6	-2.2	+1.2
furniture industry	-5.5	-9.3	-10.9	-2.1
paper industry	-5.5	-12.3	-0.8	+3.1
printing industry	-7.4	-12.6	-7.2	+0.1
glass/ceramic industry	-2.6	-13.9	-11.3	+1.8
construction	-2.5	-1.1	-1.4	+3.9

Although industrial production in Germany went up slightly in general, the downtrend continued in many sectors. The previous year's levels were also missed almost everywhere. German industry is still a long way away from an upturn.

Further data on the situation of the German chemical and pharmaceutical industry is available in the German Quarterly Report: https://bit.ly/wirtschaftliche_Lage

Germany: Bright spots in chemicals and pharmaceuticals
chemical and pharmaceutical production, seasonally adjusted, Index 2021 = 100



In Q1 2024, production in the chemical and pharmaceutical industry rose significantly above the previous quarter for the first time again. Production also improved against the previous year. This was the first increase after almost two years of negative quarterly figures. For chemical companies, empty stocks brought more orders despite the persistently weak business climate for industry generally. The pharmaceutical industry significantly expanded its production thanks to the good order situation - especially with customers from abroad. However, production growth in the sector as a whole cannot conceal that the situation remains difficult. The slumps of the crisis years have not been made up for.

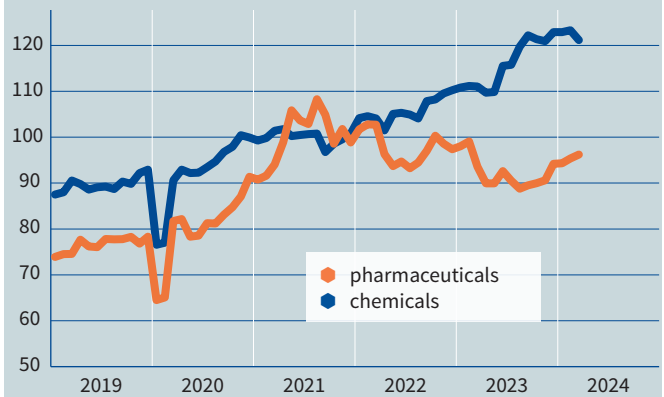
China: Customer industries

production, seasonally adjusted, changes in percent

	2022	2023	1. quarter 2024	
			gg. Vorjahr	gg. Vorquartal
manufacturing industry	+ 3.1	+ 4.7	+ 6.5	+ 2.7
basic metals	+ 1.9	+ 7.6	+ 7.8	+ 2.8
fabricated metals	- 0.1	+ 2.7	+ 5.1	+ 2.0
chemicals	+ 5.8	+ 9.6	+ 10.3	+ 0.9
pharmaceuticals	- 2.3	- 5.6	- 1.8	+ 3.5
plastics processors	- 1.4	+ 3.2	+ 10.0	+ 5.2
automotive industry	+ 6.9	+ 12.4	+ 9.4	- 3.1
mechanical engineering	+ 0.7	+ 2.5	+ 2.0	+ 2.6
electrical appliances	+ 11.8	+ 12.9	+ 4.4	+ 0.5
electrical equipment	+ 7.4	+ 3.0	+ 12.2	+ 3.7
food and beverages	+ 3.7	+ 2.0	+ 4.1	+ 6.7
textile industry	- 1.7	- 2.9	+ 3.2	+ 4.2
furniture industry	- 5.7	- 7.2	+ 7.3	+ 6.5
paper industry	- 0.5	+ 2.7	+ 11.5	+ 2.8
printing industry	+ 0.7	- 3.3	+ 4.3	+ 4.4
glass/ceramic industry	- 1.4	- 0.5	+ 1.1	+ 4.7

Industry in China had a vigorous start in 2024. Except for the automotive industry, production increased in all sectors. The previous year, too, was strongly exceeded almost everywhere. However, momentum slowed again in many sectors during the quarter under review. March data remained far below expectations with production cutbacks against February. Loss of consumer confidence, the unresolved real estate crisis and the still weak global economy stood in the way of stronger growth. So far, the government's measures have been focusing on incentives for investment in infrastructure and emerging industries.

China: pharma on track - high level in chemistry
chemical and pharmaceutical production, seasonally adjusted, Index 2021 = 100



After the unusually sharp rise in chemical production in the summer of 2023, the trend returned to normal. It seems that existing stocks were resorted to for the improvements in customer industries at the beginning of 2024 – at least, no significant growth was recorded in chemical output at the start of the present year.

In the pharmaceutical industry, the phase of normalisation following the strong production increase in the corona years appears to have been completed. Production continued with normal growth in early 2024.

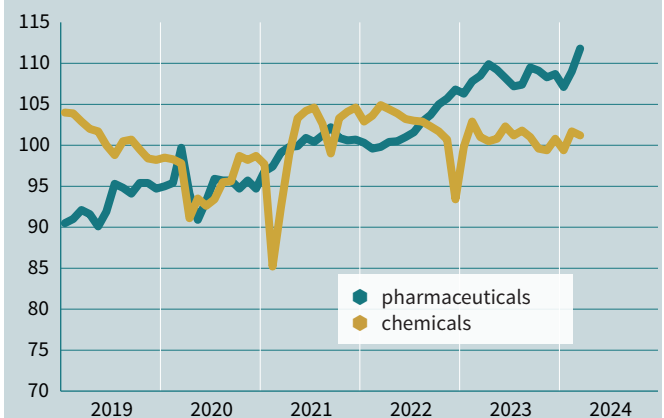
USA: Customer industries

production, seasonally adjusted, changes in percent

	2022	2023	1. quarter 2024	
			yoy	qoq
manufacturing industry	+ 2.7	- 0.6	- 0.4	- 0.1
basic metals	- 0.5	- 2.4	- 0.5	- 1.2
fabricated metals	+ 3.4	- 1.3	- 2.2	+ 0.2
chemicals	+ 2.2	- 1.3	- 0.5	+ 0.9
pharmaceuticals	+ 2.2	+ 5.9	+ 1.6	+ 0.6
plastics processors	+ 2.8	- 4.0	- 0.2	- 0.6
automotive industry	+ 9.8	+ 6.3	+ 4.7	+ 3.1
mechanical engineering	+ 5.6	- 0.8	- 2.1	- 0.4
electrical appliances	+ 3.6	+ 0.1	+ 1.9	+ 0.2
electrical equipment	+ 12.7	+ 10.7	+ 9.3	- 0.4
food and beverages	+ 1.4	- 2.3	- 4.1	- 0.8
textile industry	- 0.8	- 3.9	- 9.3	- 2.0
furniture industry	+ 2.3	- 7.5	- 4.4	+ 0.4
paper industry	- 1.1	- 6.6	- 0.6	+ 0.4
printing industry	- 2.6	- 4.4	- 6.3	- 0.0
glass/ceramic industry	+ 5.4	- 0.7	- 4.7	- 1.7
construction	+ 5.3	+ 2.1	+ 6.3	- 0.8

The weakness of US industry lasted at the beginning of this year. There were further production cuts in many sectors, including construction. The previous year's level was missed almost everywhere. The only exceptions are the automotive and electrical industries. The automotive industry was able to make up for the slump at the end of 2023, when production was partially paralysed due to strikes. The electrical industry nearly maintained its high level.

USA: Positive start – but momentum restrained
chemical and pharmaceutical production, seasonally adjusted, Index 2021 = 100



The pharmaceutical industry in the USA got off to a lively start to the new year. The positive trend thus remained intact, albeit with some ups and downs. Demand in the world's largest healthcare market remains strong.

Chemical production also developed better than in the previous quarter. However, development remained subdued due to weak domestic demand from industrial customers.

Further data on production of the chemical and pharmaceutical industry worldwide is available on a monthly basis in the World Chemistry Report: https://bit.ly/World_CR

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