FEDERCHIMICA
CONFINDUSTRIA

THE CHEMICAL INDUSTRY IN ITALY: SITUATION AND OUTLOOK

DECEMBER 2020

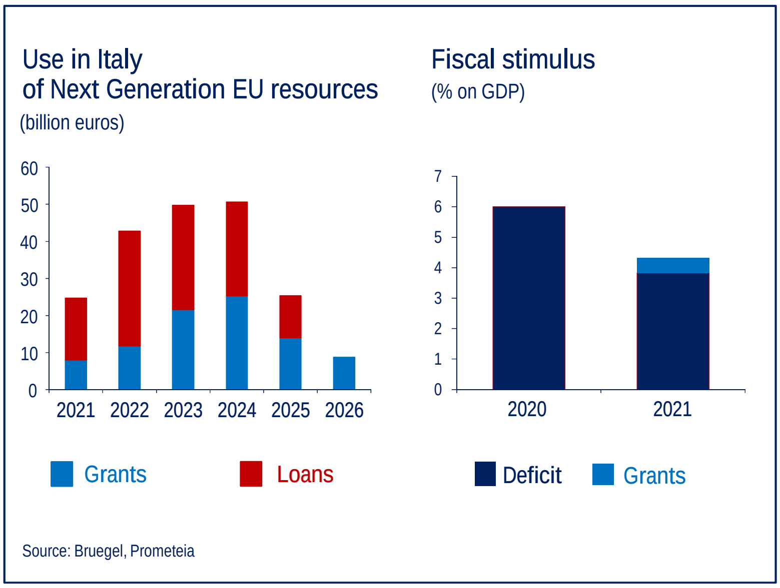
Foreword

Forecasts are highly uncertain in relation to the development of the health crisis and to its economic repercussions.

The following scenario assumes the development of effective anti-Covid vaccines that nevertheless will not be able to cover the whole population throughout 2021. Although vaccines are expected to rapidly reach a considerable production scale, possible delays may originate from the organization of the complex distribution system and from the reluctance of some population members. In this context further containment measures cannot be excluded, in particular in the first part of 2021, but in a less restrictive form.

IN ITALY, THANKS TO EUROPEAN RESOURCES, FISCAL POLICIES WILL REMAIN EXPANSIVE

After a robust expansive fiscal policy adopted by Italy in 2020 (100 billion euros financed in deficit), further resources will be necessary to face the coexistence phase with the virus and to stabilize the recovery.



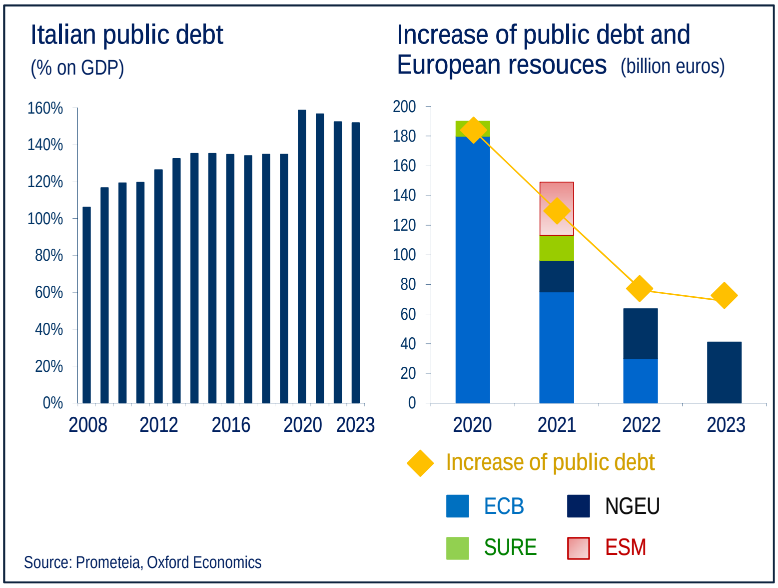
Unlike in the past, the current crisis has prompted a strong European reaction, setting up numerous new instruments: SURE to safeguard employment and wages, ESM for health care expenditure, Next Generation EU whose main component is the so-called Recovery Fund.

Italy could be among the major beneficiaries of EU resources with over 270 billion euros in loans (205 billions) and grants (65 billions) disposable along 6-7 years. It is a historical opportunity to boost the growth in Italy and support the transition towards digital and environmental sustainability with significant public resources.

In the short run the impact of NGEU will be affected by some restraints. First of all only 10% of the resources will be distributed in 2021, most likely starting from the second half of the year. Furthermore while grants will be employed for additional expenses, most part of loans will finance – at more favourable conditions – already programmed expenses in order not to further weigh on the huge Italian debt (close to 160% on GDP in 2020 and expected to slightly decrease in the following years). Finally, in order not to disperse resources, a more efficient programming and implementing capability of the Public Administration will be critical.
The role of NGEU will nevertheless be significant. In addition to reducing asymmetries among countries and granting financial stability, thus allowing greater degrees of freedom in fiscal policy,

it will help to counteract the disorientation of operators and to encourage investment decisions giving them a clearer vision of the model to pursue.

For the chemical sector important opportunities will emerge, in particular, in relation to energy and environmental goals. However the development of the so-called new “own resources” will have to be monitored, firstly the Plastic Levy the EU wants to introduce starting from January 1, 2021, that could be applied unevenly in the different European countries.



In this context **fiscal policies will keep on being expansive in 2021 as well, despite generating a more limited stimulus compared to the previous year (from 6.0% to 4.3% in terms of GDP points).**

The European support will grant extremely favourable public debt financing conditions and it will avoid tensions on spread. As a matter of fact, as already happened in 2020, most part of the additional public debt (foreseen in the presence of a slight percentage reduction in terms of GDP) will be financed via ECB purchases and the new European funds.

RECOVERY WILL GRADUALLY MAKE ITS WAY THROUGHOUT 2021

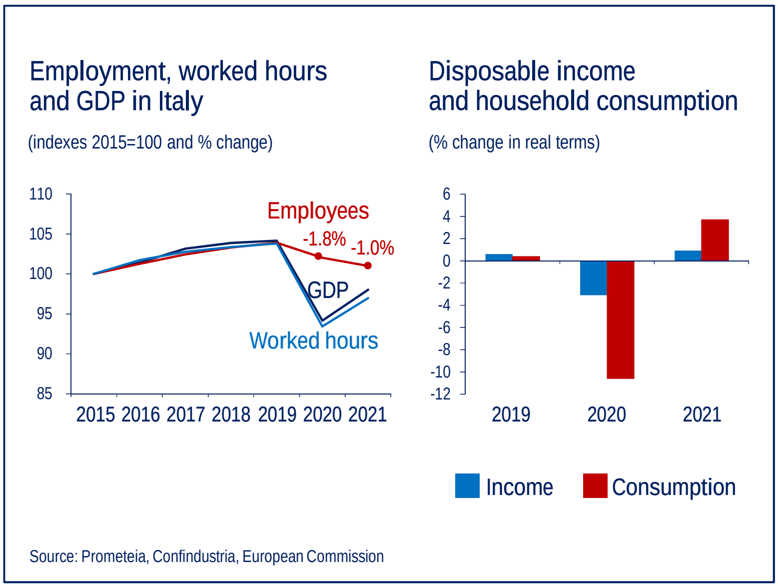
In view of the hard economic recession caused by the pandemic and of the second wave of infections, which may be followed even by a third one, it is reasonable to wonder if a negative spiral between demand and supply could be triggered that might jeopardize recovery in 2021.

A possible recovery is conditioned mainly by the extent of negative repercussions in terms of employment and disposable income of households.

The extensive use of social shock absorbers allowed an adjustment of the hours worked in line with the trend of the wealth produced, thus limiting significantly job losses (-1.8% in 2020). In spite of that, sectors mostly affected by social distancing include several services, in particular hosting and entertainment which account for 8% of the total employment.

As a consequence, **due to the health crisis dragging on, employment is expected to decrease also in 2021 (-1.0%), despite the tax relief provided for hiring.** In this context, households’ disposable income – after withdrawing by 3.1% in 2020 – will only record a modest recovery in 2021 (+0.9% in real terms).

The possibility of recovery will be conditioned by, at least, partially retrieved confidence conditions. In 2020, as a matter of fact, decrease of consumptions was amplified by a marked and widespread increase of saving rate, fed by restrictions and fear of infection that have affected also well-off population segments and/or those less exposed to economic repercussions of the health crisis (such as the Public Administration) that, on the contrary, have benefited from the various fiscal interventions to support households.



Even if a sort of caution will still hover, mainly for households more exposed to the risk of losing jobs, overcoming the emergency phase and more favourable confidence conditions will support a limited growth of consumptions (+3.7% expected in 2021 after -10.6% the previous year) thanks to the partial reduction of saving propensity. The single expenditure items, differently affected by restriction measures, will record a partial re-balancing.

Macroeconomic forecast for Italy
(real % change, except for differently stated)

	2019	2020	2021
GDP	0.3	-9.6	4.1
Private consumption	0.4	-10.6	3.7
Public consumption	-0.4	1.2	0.5
Inv. in machinery and means of transport	1.4	-16.0	6.0
Investments in construction	2.6	-10.8	12.0
Export of goods	1.4	-12.6	8.2
Import of goods	-0.2	-10.7	8.9
Inflation (%)	0.6	-0.1	0.7
Employees	0.6	-1.8	-1.0
Disposable income of households	0.6	-3.1	0.9

Source: Prometeia, Confindustria, European Commission

Assuming that the spread of the vaccine will be able to reduce the impact of the pandemic and fuel a more relaxed climate of confidence, **recovery is expected to make its way with difficulty in the first part of the year and then to consolidate in the second half.** Overall growth will be largely insufficient to compensate for losses in 2020 (**GDP +4.1% after -9.6% in 2020**) but with uneven trends among different components.

Public consumption will prove in moderate expansion both in 2020 (+1.2%) and in 2021 (+0,5%)

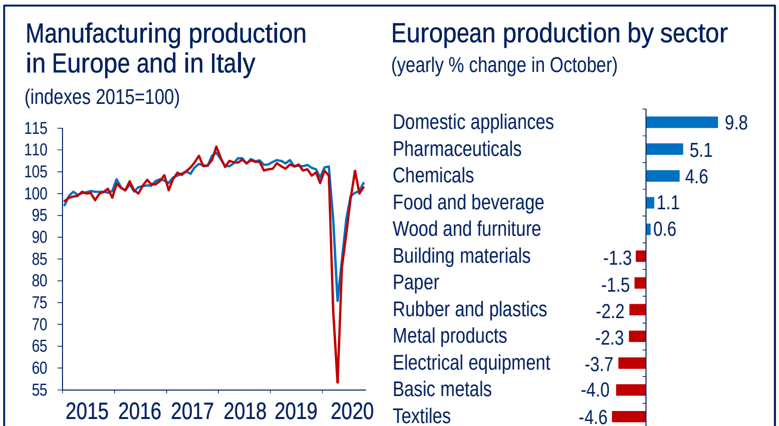
In **constructions** significant recovery signs in the second half of the year will not dissolve and will compensate losses due to the lockdown (+12.0% expected in 2021 after -10.8% in 2020). The extension of the so-called “eco and earthquake-bonus” strengthened up to 110% will be joined by the reactivation of public investments, also thanks to the new European funds (in particular rail and road networks, telecommunications and energy infrastructures).

Investments in **capital goods** and **means of transport** – harshly hit in 2020 (-16.0%) – are expected to record a partial restart throughout 2021 (+6.0%) in a context that, despite being affected by uncertainty, features strong requests for technological transformation and opportunities from low interest rates, from strengthened fiscal incentives 4.0 and, more generally, from European funds.

Export of goods as well – despite decreasing in 2020 (-12.6%) more moderately compared with 2009 – will only partially increase in 2021 (+8.2%) due to a less favourable euro/$ exchange rate compared with 2020 and to Brexit-related risks. The growing penetration of **imports** – linked to some products related to the health emergency depending from abroad and to a wider foreign presence in on-line channels – will not allow the trade surplus to gain back its record level of 2019 (close to 100 billion euros).

ITALIAN MANUFACTURING IS MORE ROBUST AND RESPONSIVE, BUT RECOVERY INTENSITY WILL BE DIVERSIFIED

After the downfall caused by the lockdown in March and April, the European manufacturing industry has recorded a quick and widespread rebound across all sectors. **In Italy, in the face of more severe restrictive measures, industry has proven particularly reactive, aligning to the European production:** on a yearly basis, decline – amounting to 13% in the first 10 months – has significantly reduced, reaching 3% in October.



Yearly % changes in 2020

	Jan-Oct	Oct
UE	-10%	-3%
Italy	-13%	-3%

Source: Eurostat

In the light of the upsurge of infections – hitting all Europe – prospects are nevertheless very uncertain. It is reasonable to expect that **the impact of the second wave will be definitely less strong than the first one** in consideration of the more selective restrictive measures – not imposing in particular a general stop to industrial production – and that the system is on the whole more prepared (availability of personal protection equipment and a strengthened health system, in companies introduction of safety protocols, smart working and re-organized supply chains). On the other hand economic effects will certainly not be irrelevant: consumption chances will be constrained by new restrictions to mobility and services operations (such as food catering and retail trade). More in general, uncertainty will lead to further postpone expenditure decisions.

In this context **manufacturing production in Italy in 2020 is expected to decrease by 13%, in any case less than accounted in 2009 (-19%) in the wake of the global financial crisis. The setback, expected in the recovery path due to the upsurge in contagions, will condition 2021 which will grow by no more than 8%.**

There will be considerable differences, across sectors and single companies, not only in the impact of the crisis, but also in the intensity of the recovery, which will make its way unevenly. Automotive and fashion will struggle more to take a solid recovery path as they are more exposed to restrictions (regarding mobility and retail trade) and to an uncertain climate. Building materials and furniture, on the other hand, will still benefit from the stimulus of the so-called “eco-bonus” in a context of renewed centrality of the home. Consumer goods will still be boosted by the need of hygiene and health in the face of relevant substitution effects such as between domestic and outdoor consumption. Machinery and electronics will only record more tangible recovery signs in the second half of the year. **Within sectors significant market share shifts will be possible among companies depending on product portfolios and competitive positioning.**

Despite the weakened economic cycle, already featured in 2019, **Italian manufacturing confronts the current crisis backed by financial conditions that are, on the whole, better than in the past.**

In all size classes liquid or liquidable short-term resources have increased and risks are mitigated by a substantial package of measures, in particular the moratorium and public guarantees on loans that are likely to be extended. **Wide liquid resources and favourable financing conditions will allow more robust companies to better absorb shocks and to strengthen investments to tackle a scenario of deep technological and market changes.**

With the health and economic crisis, insolvency cases will unavoidably increase. **More vulnerable industrial companies – i.e. with a negative cash flow already in 2019 – correspond to 6% of manufacturing production value (vs. 12% on the eve of the public debt crisis in 2013).** More intense selection events will regard distribution and services – more directly exposed to restrictions and financially more fragile – impacting also on industrial chains.

The health crisis has triggered or strongly sped up deep and permanent changes, with the contribution of stronger intervention policies in Italy and in Europe.

Attention to **hygiene, safety and security** is a new priority doomed to impact on both more directly involved products and all consumption types, such as the so-called “safe beauty”, designing anti-bacterial fabrics and materials, and self-sanitizing vehicles.

E-commerce and delivery have recorded in a single year a growth (+112% in mass consumption according to a Nielsen survey) which was originally expected for the next 5 years, thanks to a forced experimentation by new users, also among the more mature population. These channels are not only to be monitored but can open up new opportunities, for example, in terms of packaging able to guarantee adequate protection and, in the food sector, best temperature, conservation and appealing conditions.

A push to redesign **life and job environments** will be strengthened in the face of the more widespread smart working and of the request for wider liveability. Home, with its related goods and services, gains a new central position becoming a place for study, work and – when the health emergency will be over – new conviviality. Furthermore many Italian citizens (4.5 millions according a recent Coop report) declare they intend to move from big cities towards smaller urban centres and, more in general, the request for nearness of all services comes to light, according to the “City in 15 minutes” model.

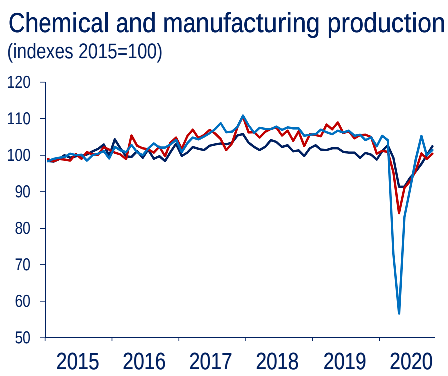
If a setback to people **mobility** can be supposed, the same cannot be said for goods handling with solutions that in the future may involve also robots and self-driving vehicles. A further fundamental driver will be sustainability, also in the light of incentives expected in almost all European countries. In 2020 electric (hybrid and rechargeable) cars were almost 20% of new registrations (source ACEA), more than doubling the share of the previous year. Simultaneously both gas-fuel vehicles and biofuels also for traditional engines make their way.

The transition towards **environmental sustainability** will be strongly accelerated in all sectors in the light of the far-reaching goals of the Green Deal and of huge public resources available within the Next Generation EU and by individual European countries. That will lead to more stringent regulations – one need only to think of the Farm-to-Fork strategy or the Chemicals Strategy for Sustainability – and to more standardized definitions and evaluation methods that will be able to hinder the so-called Green Washing from spreading.

All these changes will require significant repositioning efforts by companies, aimed at intercepting new opportunities, together with huge investments addressed to developing and implementing new competences and technologies. Economist Daren Acemoglu has stated, based on factual data, that one of the most innovative periods in the history of humanity may be starting. As a consequence, after a complex and challenging transition phase, a steadier growth phase may be starting globally thanks to the boost to productivity resulting from innovation.

CHEMICAL INDUSTRY IN ITALY – AS ESSENTIAL GOOD – LIMITS LOSSES, BUT IS AFFECTED BY THE DIFFICULTIES OF “MADE IN ITALY”

The chemical production in Italy, despite significantly withdrawing, holds better than industry in general (-9.6% year on year in the first 10 months vs. -13.3%). The sector, acknowledged as essential, has not suffered any production interruption and has operated continuously, also thanks to a well-rooted safety culture. On the other hand, unprecedented contraction of several customer sectors has inevitably affected chemical demand as well.



Yearly % changes	2019	Jan-Oct 2020
Italian manufacturing	-1.3%	-13.3%
Chemical ind. in Italy	-0.1%	-9.6%
Chemical ind. in Europe (EU)	-1.1%	-3.6%

Source: Istat, Eurostat

Extremely diversified situations coexist in relation to customer sectors and single applications. Demand of all chemical products, essential for health, grows: oxygen, reagents and pharmaceutical active principles, sanitizers, personal and environment hygiene products. Supply in these sectors has been pushed to its maximum capacity and different reconversion cases have occurred. Safety needs lead plastic demand as well, used not only for personal protection equipment but also in order to guarantee the best food conservation conditions.

The summer months have marked the start of a gradual recovery of demand, also from customer sectors more disadvantaged by the sanitary emergency. Recovery is lively in the building sector, significant in the automotive, slower in textiles and leather. Persistent weakness of fashion and other specializations typical of made-in-Italy production, together with a more restrictive lockdown, explain **a more negative trend of the chemical industry in Italy compared to the European average (decreasing only by 3.6%) after 4 years in a row when national production had recorded a much steadier growth (+6% in 2015-19 vs. +1% in Europe)**.

Export and import of chemicals in Italy

(indexes in value, 2015=100)

Export to main markets in 2020

(yearly % change in value)

	Jan-Sept	Sept
Germany	-5.8	+10.3
France	-10.2	-9.8
Spain	-13.0	+4.7
USA	-2.2	+0.7
United Kingdom	-12.5	-8.0
Poland	-8.0	+10.1
Netherlands	+12.8	-12.1
Belgium	+7.2	+9.4
China	+21.4	+45.7
Turkey	-3.1	+5.9
Intra-EU	-7.1	+1.1
Extra-EU	-6.4	+1.9
Total	-6.8	+1.4

Source: Istat

After the downfall in the early 2020, worsened by logistic problems, **Italian export of chemicals has gone through a strong rebound with slightly higher levels in September than in pre-Covid (+1.4% in value vs. -6.8% in the first 9 months).** The major destination markets mark patchy trends: beside the booming export towards China (+45.7%), significant progresses concern Germany (+10.3%), Poland (+10.1%), Turkey (+5.9%) and Spain (+4.7%) in the face of still strongly negative trends in France (-9.8%) and United Kingdom (-8.0%).

The import of chemicals marks a withdrawal of 7.5% in value in the first 9 months along with a more restrained recovery trend vs. export (-2.7% in September) and, as a consequence, the sector trade balance marks a moderate improvement.

The rapid Chinese recovery, beside feeding the Italian and European export, re-positions local productions towards the domestic market thus causing **limited availability and upward pressures on prices** for some intermediate chemicals. In a scenario where no marked increases of oil prices are expected, therefore of virgin naphta upstream in the whole petrochemical chain, tensions arise also in relation to the lack of specific raw materials (that is the case of sulphur, for instance, also in relation to the lower production rate of refineries). These aspects contribute to make the operating management more difficult in a context of larger incidence of fixed cost and demand volatility.

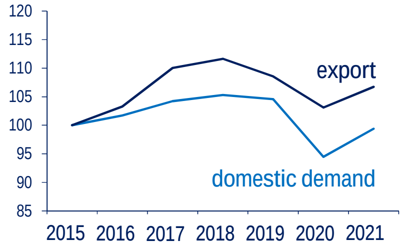
IN A CONTEXT FULL OF UNCERTAINTIES, PARTIAL RECOVERY OF CHEMICAL INDUSTRY IN ITALY IN 2021

In the light of the second wave of infections, **the chemical production in Italy is expected to close 2020 with a decrease of 9.4% in the event of a limited weakening in the fourth quarter.**

Forecast for the chemical industry in Italy

	2019 billion €	% change in volume		
		2019	2020	2021
Domestic demand	62.6	-0.7	-9.7	+5.0
Import	38.1	-3.0	-6.4	+5.0
Export	30.5	-2.8	-5.0	+3.5
Production	55.0	-0.1	-9.4	+4.0

Domestic demand and export
(indexes in volume, 2007=100)



Source: Istat, Federchimica

New restrictions, applied throughout Europe, do not directly hit manufacturing but they affect the operators' purchase decisions making orders more irregular and fragmented with the result of a difficult scheduling.

Prospects remain extremely uncertain in relation to the development of the health crisis and to its economic consequences. In any case the new phase of weakness will extend at least to the first quarter of 2021. The continuation of the healthcare crisis is also likely to exacerbate the liquidity problems of the most vulnerable customers, especially in the hardest-hit sectors, with possible repercussions for chemical companies in the form of late payments and possible insolvencies. The sector proves to be, in any case, among the most solid ones from an economic-financial perspective, as confirmed by the lowest incidence of non-performing loans in the Italian industrial landscape (1.3% – together with pharmaceuticals – in September 2020 vs. an industry average of 7.9%).

Assuming effective vaccines being developed together with a suitable distribution system that can reach at least people at a larger risk and fuel a more relaxed confidence climate, chemical production throughout 2021 is expected to get back to expansion (+4.0%) without however fully balancing the losses of 2020.

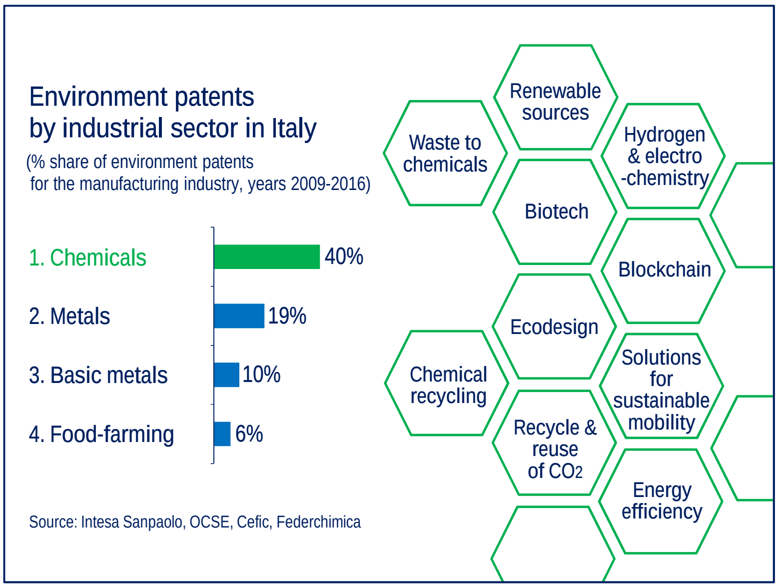
In a still fragile scenario significant worries are caused by the introduction of **Plastic Tax**, currently not repealed but only postponed to July 1, 2021.

Although the health emergency has highlighted the usefulness of plastic to guarantee best security conditions, the **Plastic Levy** is also foreseen as of January 1 at European level, a sort of sanction on non-recycled plastic packaging waste that risks generating distortions in the single market because some countries have already declared it will be paid by drawing from the general taxation.

CHEMICAL INDUSTRY, LEADER IN TRANSITION TOWARDS ENVIRONMENTAL SUSTAINABILITY

The challenging goals of the European Green Deal demand an overall reconsideration of supply models and consumption behaviours and they will be achieved only through a strong and pervasive push to technological innovation.

The chemical industry is not only playing a fundamental role in the fight against Covid-19 and in health safeguard, but it is also leader in supplying solutions for a wider environment sustainability.

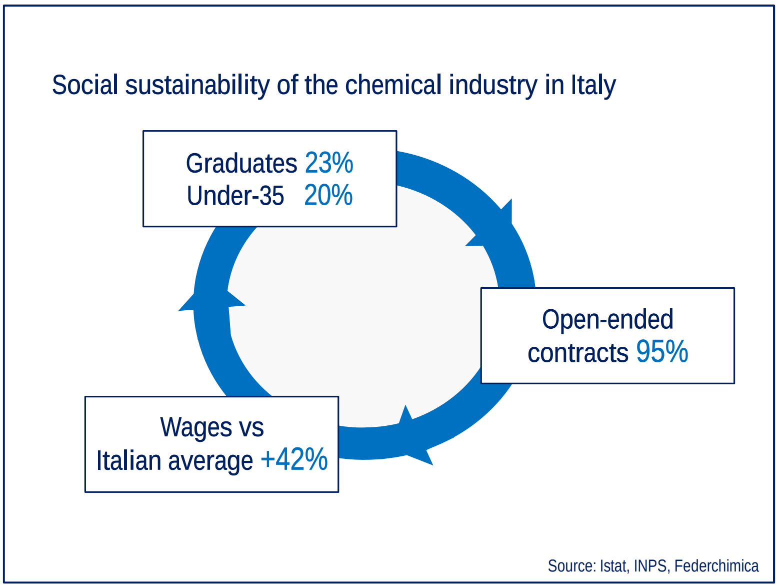


The chemical industry in Italy is namely the first industrial sector in terms of share of environment patents, accounting for 40% of the total. It therefore plays a crucial role as to all technologies classified by OECD as relevant to the environment management (polluting emissions, waste and soil), preservation and availability of water and mitigation of climate change.

The chemical industry is ready to make a further qualitative leap thanks to its many development areas, some of which benefit from cutting edge technological competences in Italy. Suffice it to think of renewable sources and industrial biotechnologies, of chemical recycling and waste to chemical, of the effort in sustainable and circular product engineering, of the development of innovative technologies for the energy efficiency of buildings, for an eco-sustainable mobility, to capture, store and reuse CO_2 and for clean hydrogen.

CHEMICAL INDUSTRY GUARANTEES SOLID EMPLOYMENT PROSPECTS

Thanks to its technological complexity the chemical industry guarantees also solid employment prospects.



Young people account for 20% of employment and almost one employee in four is graduate vs. an industry average of about one in ten. Open-ended contracts are the great majority (95%) since companies invest in their human resources and therefore have no interest in scattering them. High productivity levels allow 42% higher wages than the Italian average. **In the last 4 years the sector has generated over 6.000 new jobs and employment is expected to hold on also in 2020**, meaning that – notwithstanding the effects due to the higher retirement age and the already in 2019 worsened conjuncture – companies are investing in human capital to acquire new competencies in crucial areas such as research and digitalization.

SCIENTIFIC APPROACH AND EFFICIENT P.A. TO FOSTER THE VIRTUOUS CYCLE OF ENVIRONMENT, GROWTH AND WELL-BEING

Research, technological innovation and training are the keystones that enable the chemical industry to foster a virtuous cycle among environment, growth and well-being, thus avoiding the risk that transition towards environmental sustainability may fuel degrowth, impoverishment and social exclusion.

Next Generation EU is a great opportunity to support recovery and transition towards environmental sustainability in Italy, mobilizing huge public resources and orienting the private ones in a logic of industrial policy. **The chemical industry should be acknowledged for its driving role in environmental sustainability for the whole economic system by virtue of its scientific competencies and its position upstream in several value chains.**

As to support to research, not only basic but also applied, an approach based on the whole product life cycle is necessary, without focusing only on reducing the environment impact of the end-of-life or on the absence of dangerous substances.

It is not possible, furthermore, **to aim at boosting technological innovation without a qualitative leap in Public Administration too**, suffice it to think of the time necessary to release permits and authorizations for new plants, new products or to use waste as secondary raw material that is long and uncertain i.e. inconsistent with market logics.

Headquarters

20149 **Milano**
Via Giovanni da Procida, 11
Phone. +39 02 34 565. 1
Fax. + 39 02 34565.310
federchimica@federchimica.it

00186 **Roma**
Largo Arenula, 34
Phone +39 06 54273.1
Fax. +39 06 54273.240
ist@federchimica.it

1040 **Bruxelles**
Avenue de la Joyeuse Entrée, 1
Phone +322 2803292
Fax. +322 2800094
delegazione@federchimica.eu

www.federchimica.it