



Situation and outlook of chemical industry in Italy

January 2017

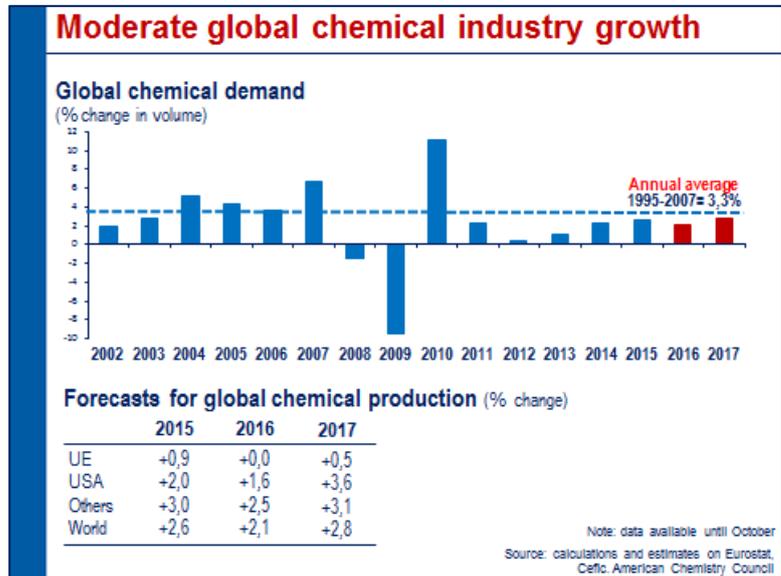
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A moderate global chemical industry growth in 2016 and only a slight acceleration expected to emerge by 2017

In 2016, the slowdown in global growth, combined with the weakness of international trade, has resulted in a year of positive but moderate growth for global chemical industry (just above 2%), slightly lower than growth rates of both the previous year (2.6%) and the pre-crisis ones (3.3%).

In a context of a slight improvement of economic growth, combined with a more dynamic trade (although below the pre-crisis growth rates), global chemical demand should show a moderate acceleration in 2017 (+2,8%).

Fears of beginning of the year relative to a hard landing of China have downsized and so the chemicals - a highly pro-cyclical sector - has not shown dramatic declines in growth rates (+ 6.5%), which remains satisfactory even if less than those double digit of the pre-crisis years. Also in 2017, the growth of China chemical production is expected just above 6%, a rate that should be sufficient to prevent the exacerbation of existing problems of over-capacity. However, the ongoing projects in Asia and especially in China - which increasingly leads the ranking of the world's chemical investments - entail the risk of a significant overcapacity in some value chains. In particular, China is becoming increasingly self-sustaining in some products and this poses the risk of diversion of trade from the United States and the Middle East to Europe. These problems make extremely risky the "soft" policy of the European Commission on trade defense instruments such as anti - dumping duties.

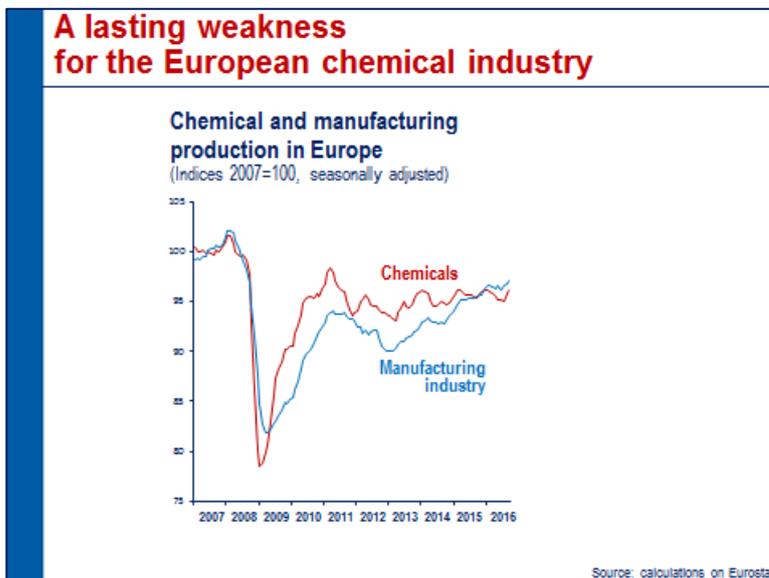


After the slowdown shown in 2016 (+ 1.6%) – which is related to domestic and global industry - the American chemicals is expected to show a marked growth acceleration in 2017 (about + 3.6%) and in the following years. This will be a byproduct of the improvement in the demand scenario, the enduring competitive advantage related to shale gas and the high chemicals investments associated, which are expected to become operational.

The European chemical production – the effective litmus test of the weakness of the European situation - will end the year 2016 with a stabilization of production at current levels, but it hides different trends among the various segments.

In the face of a further European economic slowdown, Cefic expects for 2017 only a moderate growth in chemical production volumes (+ 0.5%). The demand from customer segments will not show strong acceleration, but it will be more balanced than in 2016. Moreover, it will be accompanied by a moderate improvement in the global demand and a more favorable exchange rate, even if the uncertainty will affect the purchasing policies of users.

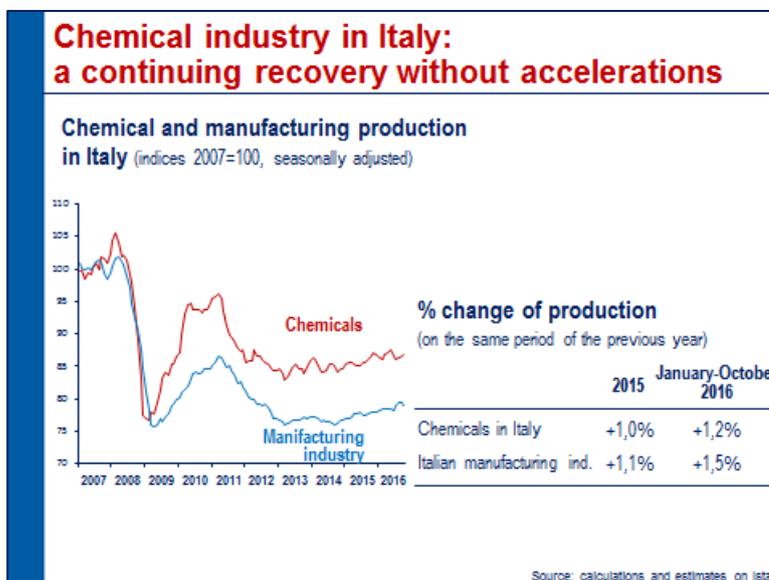
The European chemical production continues to face a number of challenges and limits to its competitiveness.



A moderate recovery of chemical industry in Italy will continue, but in an uncertain environment

In a general context of high uncertainty and low growth, chemical production in Italy has continued along a path of moderate recovery, still characterised by a strong fluctuating trend. This trend is linked to the confidence, expectations and, hence, to the purchase behavior of downstream customer sectors.

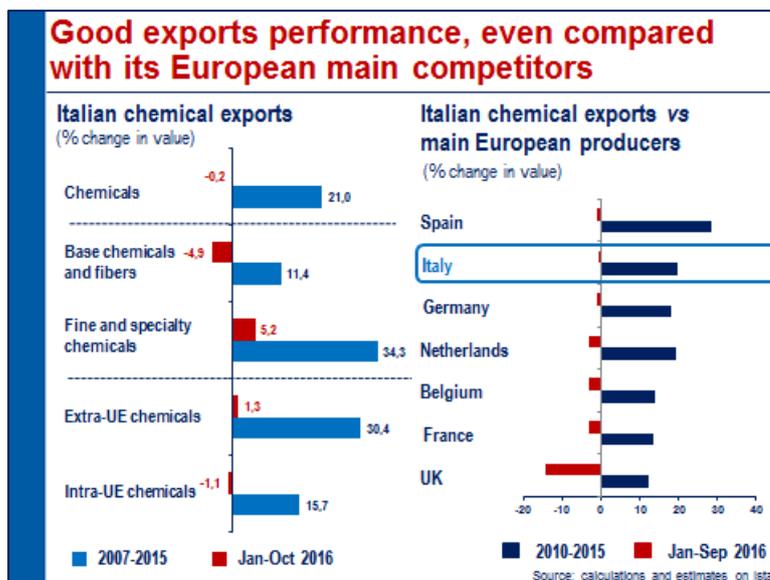
During 2016, the domestic demand has maintained its growth: the robust performance of the automotive sector and its components is accompanied by the good performance of other important customer sectors (pharmaceutical and rubber-plastics). Also, in recovery the furniture industry and first signs of the end of the fall from construction industry.



Despite the strong and widespread weakness in global trade, the Italian chemical exports are showing an increase in volumes: a substantial stability on a value basis is opposed to falling prices. After the Spain, the Italian one is the best performance among those of the major European competitors.

In particular, the export of chemical specialties continued to grow at robust rates, even at values (+ 5.2% after growing by 34.3% in the period 2007-2015).

The last months of **2016** seem to show no particular signs of improvement, with end users that appear very cautious and leave stocks of raw materials at low levels. Hence, chemical production in Italy should not go beyond 0.9%, with exports growing (+ 2.1% in volume), although at lower rates than in 2015 and with growth of domestic demand (+ 1.4%) and increase in imports (+ 2.6%).

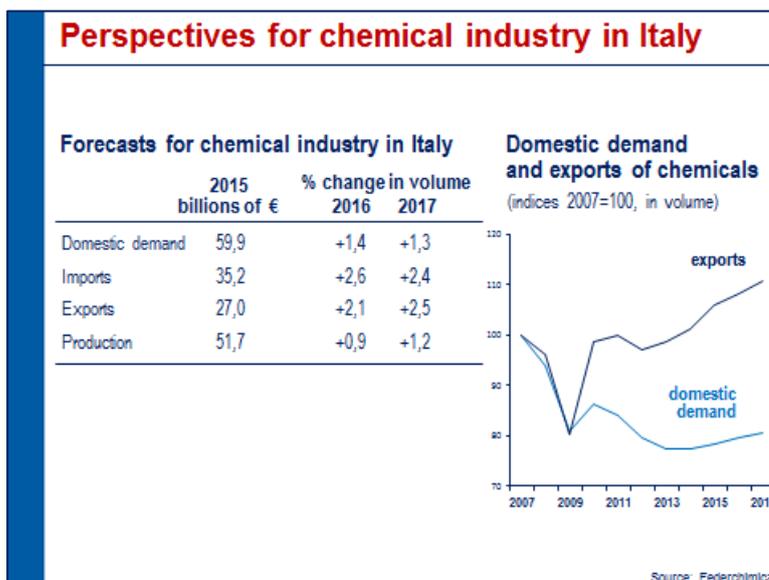


For the next months – if there will be no significant changes in the environment - the scenario will be of low growth, but with less caution in stocks policy even because it is clear that downstream users will suffer cost increases related to new level of the price of oil.

As a result, it can be expected the beginning of 2017 may offer some hints of higher growth.

On the other hand, the general context of European and Italian industry does not allow easy optimism for 2017 and there are many risks:

- increasing political uncertainty for Italy and Europe as a whole
- uncertainty for Trump policies and their effects,
- possible turbulence in the financial markets,
- transformation of China and lower growth rates of its economy and industry.



Therefore, our predictions for **2017** do not go beyond a still moderate growth (1.2%).

Domestic demand will show growth rates similar to those of the previous year (+ 1.3%), as well as imports (+ 2.4%). Exports growth will mark a modest acceleration (+ 2.5%).

It is still confirmed the **resilience** of the chemical industry in Italy

It is still confirmed that, beyond isolated cases, the industry is not in a structural crisis, even if this is the case for user sectors: non performing loans (NPL) in the industry are very low but there is an effect of those of user sectors on chemical companies.

In the meanwhile, the environment is harsh for the Italian production due to the cost of energy, the bureaucratic constraints and the logistics.

This means high capacity of companies "to do well chemicals" in our country thanks to a mix of quality, innovation more and more research-based and spread among many firms, high flexibility and management capabilities of their production processes under higher costs.

Then it may be interesting to use an important testimonial of this "know-how": the Italian foreign capital companies that produce and make innovative activity in Italy. Very interesting, for instance, that a few years ago the two "Italian" companies with the highest number of registered patents at the European Patent Office of Monaco were not only chemical but also foreign capital.

In a very difficult environment characterized by high energy costs, red tape, push to invest in Asia and strong weakness of the domestic market, these firms - which are part of the chemical industry in Italy resulting in nearly 40% of national production - have been able to get close to pre-crisis levels: the added value has grown from 2007 to 2015 by 4.7% and even more in recent years (+16% between 2012 and 2015), mainly due to the confirmed capabilities as a global world provider.

In a context of improved operating conditions this commitment could also develop into more substantial investment, employment and growth.

