



## Chart in focus

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# Significant drop in production in the chemical industry

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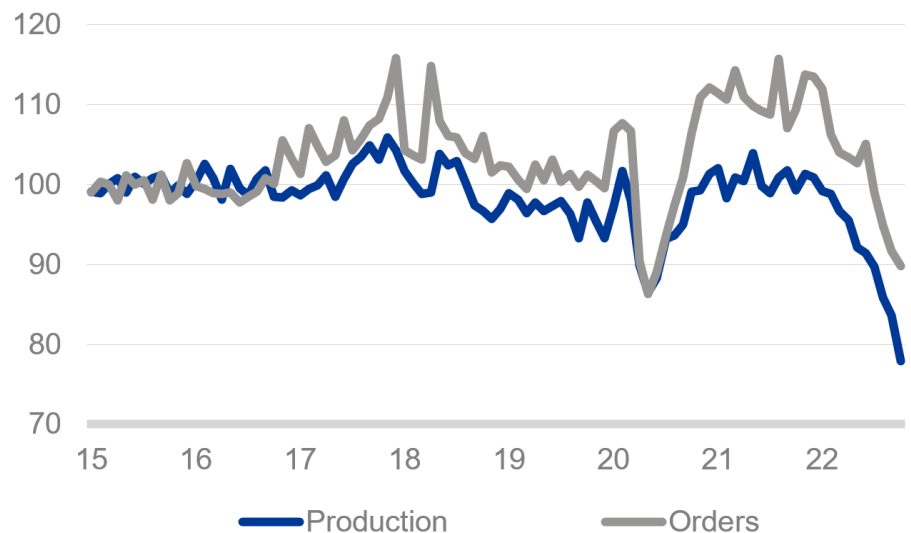
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No industrial sector in Germany has been affected as severely by the gas shortage and higher gas prices as the chemical industry. The industry's production level in October 2022 was 22.5% lower than in the 4th quarter of 2021. The prospects for the chemical industry in Germany have also deteriorated in the medium term.

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Chemical industry in Germany, 2015=100



Sources: Federal Statistical Office

No other industrial sector in Germany has been as badly affected by the gas shortage and higher gas prices as the chemical industry. It leads the ranking of industrial gas consumers with a share of around 30%. The extensive savings in gas that German industry has had to make since the start of the Russian war against Ukraine would not have been possible without a reduction in domestic production in the chemical industry. As a result, the industry's production level in October 2022 was 22.5% lower than in Q4 2021, the lowest manufacturing level since the economic and financial crisis. The production of basic chemical products, fertilizers or nitrogen compounds (e.g.





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ammonia) fell particularly sharply. Here, energy intensity is even higher than the average for the chemical industry.

New orders in the chemical industry have also fallen significantly in recent months. In October, they fell 20% short of the Q4 2021 figure. This reflects not only higher energy prices but also the general economic slowdown in key sales markets. The drop in orders has contributed to the fact that producer prices in the chemical industry in Germany have barely risen in the last three months, whereas at the end of 2021 and beginning of 2022 the industry was still much better able to pass on higher costs to customers.

The short-term outlook for the chemical industry in Germany remains clouded. The industry association VCI even speaks of "dark months" and a "dramatic situation." Although the risk of a physical gas shortage in Germany has recently decreased, many companies are likely to have problems concluding economically viable follow-up contracts for gas supply when existing contracts expire. And there will also be hardly any stimulus for the sector from the macro-economic environment.

In the medium term, too, the prospects have deteriorated, particularly for those sectors of the chemical industry in Germany with a high gas consumption. Some of the gas supplies from Russia will be replaced by more LNG imports in the future. Globally, demand for LNG is likely to grow faster than supply for the time being. As a result, natural gas in Germany will remain (significantly) more expensive than before the war. At the same time, the gas prices that companies in countries such as the US or China have to pay are expected to remain lower than in Germany in the future. A rapid conversion of production processes to alternative energy sources is often not possible or expensive. The expansion of renewable energies will also provide little relief for the energy-intensive sectors of the chemical industry in the short to medium because it will not take place quickly enough to be able to significantly replace the industry's immense gas consumption. Ultimately, some of the production lost in the current gas crisis in Germany is unlikely to return.



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