Polymer End-User Demand in a Fragile Eurozone

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The European polymers market has been on a rollercoaster ride over the past few years. Since the 2008-09 financial crisis, volatility has become the norm rather than the exception in these markets as consumer sentiment and spending turned increasingly sensitive to the state of the global economy.

And the first half of 2012 has proved no exception, particularly for Europe, as crude oil prices continued to gyrate and the debt crisis muddled the continent’s economic fortunes. Polymer prices rebounded in the first quarter, following the slump in the fourth quarter of 2011, as oil prices surged, triggering a rebound in demand. But market conditions turned in Q2 as the oil price decline fueled destocking down the chain, leading to a slump in polymer prices.

Plastic converters replenished slump stock in Q1 after ending 2011 with very low inventories, a buying pattern that was also observed in the major end-user markets, which include packaging, automotive and construction. But the demand upturn proved unsustainable as consumers held back purchases and eventually cut down inventory in Q2 amid the deepening crisis in the eurozone, wild swings in oil prices and the slowdown in the Chinese economy.

As European governments imposed austerity measures and budget cuts as a way of coping with the crisis, consumers respond by tightening their belts and limiting their spending. This period of austerity in Europe and increasing costs brought even further challenges for the polymer industry – including polyethylene, polypropylene, polyethylene terephthalate, polystyrene and polyvinyl chloride. Add to that tough competition from imports from producers in relatively low production cost base like the Middle East and Asia, and cheaper substitutes. Though beneficial for consumers, this has also put pressure on polymer prices as European producers struggled to keep up with cheaper rivals in a volatile cost environment.

The outlook for the second half of the year remained clouded with uncertainty as the energy complex wobbled – though oil prices remained high – and the macroeconomic risks escalated. Although most industry players believed that the market has bottomed out, they continued to expect the European polymers market to face challenges brought about by the difficult economic environment and unpredictable end-user buying pattern.

**Polyethylene: Industry Adapts to Troubled Market’s Needs**

A backdrop of high feedstock costs, competition on finished product from Asia, weak consumer confidence and flat demand has clouded European polyethylene’s short-term market outlook. Polyethylene holds the biggest share of 29% in the overall European plastics market of 46.4 million mt, according to industry estimates. Packaging is the biggest downstream market for European plastics, with a 39.9% share, followed by building and construction (20.6%), automotive (7.5%) and electrical and equipment (5.6%).

To insulate themselves from economic volatility, European converters have resorted to two main approaches. A trend towards using high performance films like LLDPE C6 metallocene better fit effect and cut resistance, better organoleptics, heat seal advantages and lucidity, for better quality, distinguished end products. The second approach has been downgauging or lightweighting. For example, there has been a reduction in average weight of a 1 liter detergent bottle, typically made out of HDPE over the past 40 years. In 2008, the average weight stood at 45 grams in contrast to 65 grams in 1990s.

The key to surviving an economic crisis, according to European multi-material packaging manufacturer LINPAC, is to focus on cost and to drive marketing and innovation toward new, higher growth customers and markets. The company has been driving lightweight solutions for both cost reduction and sustainability purposes across its tray and films ranges, according to VP for marketing and innovation Joanna Stephenson, as well as squeezing financial benefits from the manufacturing functions, she told Platts. Stephenson also highlighted the need for a continuous focus on innovation in a mature packaging market to stay ahead of the game.

European converters, however, understand that long-term growth strongly underlines a shift in balance towards the emerging markets. According to Rexam, the Asia, Oceania, Africa & Middle East region has now increased its packaging market value share to 34% matching that of Europe which dropped by 2% between 2009-10.

**Non-food packaging takes the bigger hit**

Defensive sectors like food and healthcare have shown better resistance in the tough economic climate. For example, “In times of economic difficulty, demand for processed food rises as people move to save costs,” the head of the Packaging Federation, Dick Searle, told Platts.

And Nestlé spokesman Philippe Aeschlimann said, “With the new economic climate, we notice that mainstream consumers have become also very conscious about their food spending.”

One of Nestlé’s key priorities currently, he told Platts, is “Popularly Positioned Products, or PPPs – affordable, high-quality food products for less affluent consumers.” Growth in PPPs in 2011 was more than twice the level of that achieved in Europe as a whole, he said.

According to Finnish packaging major Huhtamaki in its annual report for 2011, market growth in its flexible packaging division in Europe was around 2% – although that was moderate by contrast with the...
markets in Asia which grew at double-digit rates. “Development in Europe was particularly strong within packaging for soups and ready meals as well as retort laminates for pet food,” the group said.

The market for collation shrink film, typically used to hold together small numbers of packages, such as mineral water bottles and cans, is relatively stable. “We are testing to use LLDPE C6, metallocene and LLDPE C8 for collation shrink film application to make films thinner and stronger,” one European converter told Platts.

Another defensive sector has been healthcare. Plastic bottles are the largest pharmaceutical packaging category. The packaging of tablets, capsules and liquids make up the majority of demand. The largest share within plastic bottles is for oval, square and round containers with threaded necks designed to fit a wide variety of closures. The need for high value-added packaging systems for pharmaceuticals, which exists in Europe, has cushioned it from a fragile macro environment.

Sluggish demand was more pronounced in the non-food packaging application – especially in building and construction. “Demand in the industrial and construction sectors remains subdued, and we currently anticipate a further year of patchy demand,” Cameron McLatchie, chairman of British Polythene Industries, said earlier this year – though he added, with the actions taken over the past few years, particularly the rationalization in production, “we do expect some improvement in our performance in these sectors.”

Weaknesses in applications like industrial stretch wrap and stretch hood have become pronounced since 2008, industry sources report. Building films, bags for cement and paint, pipes and other application were facing pressure especially in Southern Europe where construction activity seriously faltered.

The converted film industry in Europe is also facing competition on finished product from Middle East and Eastern Europe. “The stretch film industry in Italy is a disaster. There is a lot of competition from imported finished goods from countries like Saudi Arabia and Poland,” one converter complained.

Downstream, high polymer prices have put “severe strain” on plastic converters, sources said. “Unprecedented increases in raw material prices in a recessionary environment is a major issue plastic processors are facing,” the Packaging Federation’s Searle said. “Raw material suppliers have reduced credit lines and expect cash upfront in many cases. Banks have also shown reluctance to lend. Hence, the plastic converting industry has been aggressive in pushing through price increase down the chain,” he added.

The olefin-polyolefin market fears a repeat of 2011, where demand and prices declined steadily after the end of quarter one. For instance, according to Platts data low density polyethylene contract prices in Europe plummeted from a historic high in April 2011 of Eur1,622.50/mt FD (around $1,995 using current exchange rates of around $1.23 at end-July) to Eur1,242.50/mt in December 2011. Then prices steadily increase through the first quarter to Eur1,597.50/mt FD in April, a high for 2012, as converters stepped in the market to replenish stocks ahead of the summer months, collapsing again to end June at Eur1,332.50/mt FD. The “eerily” similar trend this year, made some fear flat volume growth in 2012 like 2011. The spread to ethylene contract price narrowed in 2012 compared to the previous year, denting European steam cracker margins.

Credit rating agency Standard & Poor’s said in April that while two-thirds of the packaging firms carried stable outlook on the back of healthy demand for food and beverage packaging products, downgrades remained a possibility. “We anticipate some possible downgrades in 2012 if liquidity issues become more urgent, raw material costs continue to demonstrate highly volatile trends, or sales volumes are significantly hampered by a weaker economic outlook than we currently forecast,” said Rachel Lion, credit analyst at S&P, which like Platts, is part of The McGraw-Hill Companies.

Race to differentiate?
European polyethylene producers continue to differentiate themselves from other producers in an effort to maintain a market share in a mature market. “No longer is general purpose grade of LDPE or LLDPE film used in making bread bags, it is mostly metallocene C6 linear low density polyethylene," one European converter said.

Earlier this year, Italy’s largest petrochemicals company Versalis – the former Polimeri Europa – said it planned to replace its LLDPE C8 plant at its Priolo site with elastomers and synthetic resins units during the 2012-15 period. Ineos, meanwhile, is set to exit LLDPE C4 market by the end of 2012. It plans to convert a 240,000 mt/year C4 LLDPE plant in Cologne, Germany to metallocene LLDPE production by the end of 2012. Ineos is also considering selling its high density polyethylene plants in Rosignano, Italy and Sarralbe, France. “Rosignano and Sarralbe are not integrated with Ineos feedstocks and hence are being considered for divestment," Ineos said in a statement in May. Capacities of the plants are 200,000 mt/year and 195,000 mt/year, respectively. The decision underlined Europe’s struggle with old plants and low margins on commodity grade PE, industry sources said.
According to consultants Townsend Solutions, global polyethylene demand by process type was led by film at 51.2%. This was followed by blowmolding at 13.3%, then injection molding at 10.3%, pipe and conduit at 8.7%, extrusion coating at 3.4%, wire and cable at 2.3%, rotomolding at 1.7% and sheet at 1.6%. The consultants added that LLDPE continues to gain share from LDPE. Other consultants have echoed similar views. The second-generation LLDPE film products are likely to substitute other plastics in film and other non-plastics because they offers improved properties such as greater degree of film toughness, processability, clarity and lower cost, consultant Global Industry Analysts said in a report earlier this year.

Other sources have also said that they expect rate of growth for commodity film grades of LDPE or LLDPE to slow down, especially in relation to high alpha olefins (HAO), made from C6 or higher building blocks.

### POLYSTYRENE: BESIEGED BY COMPETITION, COSTS AND PRICING ISSUES

As plastics go, polystyrene could be said to be one of the most beleaguered, besieged by strong competition from other mutually substitutable plastics and higher costs, enshrouded by pessimism with regards to its viability in the future.

From a cost point of view, its strongest competitors, polyethylene and polypropylene only require a two-step extraction/refining process – ie, naphtha to ethylene, ethylene to polyethylene, but polystyrene requires one more rung of processing from styrene, making it naturally a dearer product. Yet, its fields of application are far more constrained and the comparative lack of versatility and recyclability of polystyrene converge to yield an increasingly challenging landscape in a period where value-added components and environmental aspects are prized.

### Intensifying competition with substitutable alternatives

Compared with one of its strongest competitors in mutually substitutable applications, polypropylene, the costs of using polystyrene are significantly higher. As of June 29, NWE PP was priced Eur202.50/mt or 17% lower at Eur1,177.50/mt FD NWE compared to PS net prices of Eur1,380/mt FD NWE. Converters add that the specific gravity of PP at 0.9 compared with the 1.06 of PS means they get more value out of a metric ton of PP. And polyethylene terephthalate, whose density ranges from 1.3-1.68, surpasses PS in terms of its high recyclability properties.

Pessimists are convinced that polystyrene is a sunset industry with little prospects for growth going forward. In 2011, the PS market shrank 3.4% in the Eurozone while competing plastics like polypropylene clocked growth of 7%, industry experts said. The forecast for this year is for the market to shrink by another 2-3%.

“PS is a fairly mature product,” Hans-Dieter Schwaben, Product Director, Polystyrene EMEA, Styrolution. “Anything that can be modified has already been tried.”

What used to be a key downstream industry for PS a decade ago, disc-based recorded media – CDs and DVDs – has shrunk at an annual rate of 10-15% in the last five years, converters said. The sharp decline reflected changing consumer behaviors as soft-copy ownership of media files increasingly assumed popularity over hard copy.

“Demand for CD cases is dropping fast and this industry will disappear in a few years,” Warren Ferster, Managing Director of Coral Products UK, told Platts. “Everyone is downloading.”

Coral Products started its business with 14 CD packaging production lines but today only one to two lines are still in operation for that purpose, Ferster said. The remaining lines have since been converted to produce polypropylene-based food packaging like ice-cream containers.

“It used to be a somewhat stable trend – we have stable demand for eight months, and a lull for four months but now that has all tapered off,” said Ferster. “Now demand is getting more seasonal, we only see it in August-September for Christmas and our competitors have become very desperate in clearing stocks as well.”

Downstream, other converters echo the same sentiment saying a decade from now, PP would have replaced PS altogether.

“For plastic utensils, what used to be Styrofoam or injection grade PS is now all PP,” said Christian Jouan, VP of Purchasing, Bic World. “The current rate of substitution by PP is 10% annually. For higher-valued products that require grip and a soft touch, only PP can do and it is much more malleable than PS.”

“While PP is cheaper and more versatile, transformation or processing costs go up 23-25%, so if the price spread between PP and PS is not that, there is little incentive for substitution,” said Camillo Rovida, Marketing Manager for Styrenics, at Versalis. And while there is competition from biopolymers, namely polyactic acid, those plastics have weaker thermal properties than PS. As such, while PS loses market share on utensils and plates, biopolymers cannot replace PS on certain beverage holders and plastic ware.
Experts add that PS has a solid standing in the seals and vending caps market which accounts for 40% of its applications because most seals and closures are required to be brittle. Strong growth is also seen in the extrusion polystyrene sector, which accounts for 12-14% of PS applications, at an average 3%/year, for direct glazing in meat or fish packaging and manufacture of insulation boards. Demand from North Africa was also a bright spot, with a projected 5-10% growth in 2012, although European suppliers would face stiff competition from new Middle Eastern suppliers Estyrenics and Saudi Polymers, and Asia.

High fixed prices thwart growth areas
Trending after higher energy costs, general purpose grade polystyrene net prices have risen 7.8% from the beginning of 2012 to Eur1,380/mt FD Northwest Europe on June 29.

If fast-shrinking demand from sectors like stationery and packaging was not dire enough, high fixed prices were capping potential gains from sectors that were posting positive results, threatening to haul the industry further into the red.

And adding insult to injury, lending curbs by banks in key European economies hardest hit by the crisis – Italy, Spain and France – put a further squeeze on the liquidity and profitability of small to medium-sized enterprises which represent the bulk of the market.

“Demand from XPS insulation is growing, but all buyers are careful with purchases due to credit issues,” said Schwaben. “Even though PS prices are not at an all-time high, we are not far away from that and everyone is very cautious. No one is keeping any stock.” PS prices hit an all-time high of Eur1,575/mt on December 22, 2010 on the back of bullish feedstock costs.

“Buying has gone even more hand-to-mouth now,” said David Blundell, VP of raw material purchasing at Alma Products. “The outlook on demand has become increasingly difficult to judge. In the past we would have a good idea of what demand looks like, what customers would take, in the next month by the end of the current month, now we can only say for the first half of the next month.”

Rationalization chasing shrinking demand
The Northwest European polystyrene market will remain in surplus, even after recent rationalization moves by Styrolution and Ineos, as the decline in demand continues to outpace that of supply. In March, Ineos announced that it will shut its 180,000 mt/year PS plant and 350,000 mt/year styrene monomer plant permanently from 2013, as Styrolution cancels all its styrene and PS off-takes with them. Styrolution will instead, run its own styrenics facilities in Belgium, France and Sweden at higher rates to cover its requirements.

“After Ineos’ closure, 7.25% of European PS capacity will be taken out, assuming no major changes, and at least for the first two months, we should see utilization rates rising 7-8%,” a producer said.

In 2010, total nameplate production in Europe was 2.3 million mt/year while consumption was estimated at around 2.1 million mt/year. In 2011, that fell to 2.03 million mt/year while production grew marginally to 2.48 million mt/year.

Industry observers welcomed the move and said that further rationalization in the European PS market was inevitable, given yearly negative growth rates.

“It was not a surprise, more capacity needed to be taken out and with the joint venture with BASF, they [Ineos] were the likely ones to do it,” a converter said. “But we are still long because demand is falling steadily.”

According to market experts, PS market demand shrank 4% in 2011 compared with 2010, and is forecasted to decline a further 3-4% in 2012.
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One producer said that PS demand had shrunk by close to 7% year-on-year in Q1 alone, with Spain, Italy and France contributing the most to the decline. Demand from Eastern European countries like Slovakia, Hungary, Poland, Romania and Bulgaria also fell 6% year-on-year in the first quarter.

“Customers know there is enough supply out there to live hand-to-mouth on a long-term basis,” said an Austrian expandable polystyrene producer.

For an industry constantly grappling with depressed margins and profitability woes, it is clear that economies of scale are vital for survival.

In one example, Croatian petrochemical producer Dioki idled both its 15,000 mt/year EPS plant and its 50,000 mt/year general purpose grade PS/high impact grade PS swing plant at the end of 2011, on “structural issues” within the company.

According to market sources, Dioki shut both plants on financial constraints, given that it was not a backward-integrated producer heavily reliant on imported raw material. As such, Dioki had a greater exposure to price volatility which impacted its profitability negatively.

Dioki hopes to resolve its internal issues soon, and if so, it could be able to restart its PS units by the middle of the year, the company said in April. But by the end of June, Dioki’s PS units still remained shut.

POLYETHYLENE TEREPTHALATE: REAPING THE BENEFITS OF SUBSTITUTION

Despite a dull European macroeconomic environment, polyethylene terephthalate has performed better than its peers. Owing to its characteristics, PET continues to gain packaging market share from other packaging products like glass.

The Committee for PET Manufacturers in Europe (CPME) said that there are several reasons that plastic packaging – particularly PET – is preferable to other types of packaging. PET plastic, for one, weighs less than glass, is very strong and practically unbreakable. For that reason, markets that traditionally use glass for beer, for instance, are now starting to use PET bottles, which are considered safer to carry at sporting events, say, such as football matches.

Also, as a clear packaging material, PET can be more attractive for food compared with aluminium or tin. Industry body Pira expects that between 2010 and 2016, metal packaging will steadily lose market share in packaging to other materials and glass will see slower growth compared to board or plastic packaging growth rates.

Joachim Eckstein, vice president of European plastic converting industry groups for PET and PVC, said he expects the plastic packaging converting industry in Europe will continue to provide for Europe’s packaging needs.

“We don’t believe that competition will come from outside Europe,” Eckstein said. “If you want to sell into Europe you have to be in Europe… you need direct contact with your customers and this is difficult to do outside of Europe.”

Eckstein said that PET as a packaging material has seen tremendous growth since thermoformable PET came to Europe in the 1990s, and the growing usage of PET has led some companies to replace their PVC packaging with PET. In 2011 the European market for PET film was about half a million mt/year and the European market for PVC film was about the same size.

Eckstein said that while both the PVC film and PET film are maturing markets, he said he doesn’t expect the European market to shrink moving forward. “We have more or less reached a point where the PVC is on a level it can stay at and PET will see slower growth,” he said.

While the advantages of PET plastic in packaging have caused the market for PET packaging to grow significantly since the 1990s, many people in the industry say that the volatility of pricing in Europe could hinder future growth in European PET.

In 2011, PET spot prices in Northwest Europe began the year assessed at Eur1,345/mt FD NWE, reached a high of Eur1,620/mt on March 23, hit a low of Eur1,150/mt FD NWE on December 7 and finished 2011 assessed at Eur1,235/mt. Feedstock shortages, sharp price movements in the energy complex and import levels of PET from outside Europe all contributed to the volatility of demand.

At the beginning of this year, PET producers and buyers said they expected the volatility seen in 2011 to continue throughout 2012. Initial data from 2012 supports that view. Northwest European spot PET prices began 2012 assessed at Eur1,265/mt FD NWE and in a span of six weeks rose to be assessed at Eur1,400/mt FD NWE on February 15. Spot PET prices have so far peaked at Eur1,400/mt, a level they sustained until February 29, and have fallen to Eur1,275/mt on May 23, the lowest since January 11, Platts data showed.
As one PET converter told Platts, price volatility was becoming a serious problem, and in his view, if it became any greater, people might switch back to other packaging products.

CPME and other experts also said that PET’s reputation as a recyclable material has made it more attractive to consumers. “Recycling has become so important, supermarkets ask for material up to 50% recycled – this is a trend that more brand owners and supermarkets are asking for,” Eckstein said.

Unlike other plastics, Eckstein said PET packaging has the benefit of being able to make use of recycled PET bottles from the recycling stream that can produce material that is nearly identical to virgin PET quality. But recycling PET packaging material is not as easy as recycling PET bottles, he said. According to figures released in February from Eurostat, recycling rates for packaging waste in the 27-country European Union rose in 2009 to 31.9% from 24.7% in 2005.

A report from the European Commission last year explained some of the obstacles to recycling PET packaging.

“Use of recycled plastics is marginal compared to virgin plastics across all plastic types due to a range of technological and market factors. Recycled plastics are not commonly used in food packaging (one of the biggest single markets for plastics) because of concerns about food safety and hygiene standards, though this is beginning to change,” the report said.

So while PET gains popularity as a recyclable packaging material, less than one third of plastic packaging in the European Union is actually recycled.

Overall, the European market for plastic packaging and PET in particular, has room to grow with further substitution in packaging possible. However, if high volatility in European pricing for PET continues to be a problem, that could slow conversion from other materials.

**PVC: DEMAND CONTINUES TO SUFFER FROM CONSTRUCTION SLUMP**

Nowhere has the escalation of the EU’s sovereign debt crisis that so affected peripheral economies, particularly Greece and Spain, had a bigger, more conspicuous impact than on building and construction. A weakened euro and continuing threats to the health of the single currency have also contributed to market volatility and the slow recovery. Budget cuts, tight fiscal policy and an overall more cautious investment environment have also reinforced the slump of the construction sector.

As multi-service group Bilfinger Berger noted earlier this year, “Europe’s economic outlook is disparate: satisfactory development in Germany is offset by stagnation or recession in those EU countries hit hardest by the crisis. The massive liquidity injection from the European Central Bank has brought some temporary relief, but no real solution to the European debt crisis.” In its 2012 outlook, the company had noted that the austerity measures initiated by the public sector would lead to weaker demand for civil engineering.

In its June Sentiment issue of the European Business cycle indicator, the European commission noted that in Q2 2012 construction deteriorated over the second quarter but rebounded in June thanks to a pick-up in employment expectations. Having deteriorated over April and May, managers’ appraisal of current order books remained broadly unchanged in June. Construction confidence deteriorated sharply in Q2 2012 among the largest European Union member states including the Netherlands and Poland. It decreased also in France, Spain and Germany and remained broadly the same in Italy and the UK.

Among the EU members for which data were available for May 2012, production in construction fell in 12 and rose in three, with the largest decreases registered in Spain (minus 24.8%), Slovenia (minus 23.7%) and Portugal (minus 16.4%).

Another construction conglomerate, Swedish group Skanska said in its H1 2012 report that its overall market, both for building and civil construction, was stable but with regional variations. The commercial building construction market in the Nordic countries was doing well, especially in major urban regions, while the market for residential construction in Norway was good; it was significantly weaker in Finland. Meanwhile, in Sweden, the market for large civil construction projects was expected to slow down. In other European markets, it was expected to be weak, while new civil construction projects are expected to decrease as competition for these projects intensifies.

“On the one hand, austerity measures aimed at reducing public debt have curtailed public investments in the sector while private sector investments are subjected to regulations that aim for more prudent banking, insurance and investment sectors,” said Christine Le Forestier of the Legal and Economic Affairs department at the European Construction Industry Federation.

Indeed, investments in the construction sector remained subdued. Leading supply indicators, such as building permits gained ground until mid-2011 although in several EU member states, the stock of unsold housing was set to continue acting as a drag on investment activity for some time to come and there may be some undershooting following the pre-crisis construction bubble.

Overall, higher material costs mean that construction firms tendering on a fixed price basis on commercial offices, retail and residential schemes, could see themselves substantially exposed, particularly for projects were the procurement has yet to be completed, in an environment where liquidity is scarce. The sluggish recovery of the construction sector has been heightened by increasing commodity prices — oil, copper, steel, etc. as can be seen from the increase in prices of reinforced steel bars (rebar) used in construction.

In addition to the impact the Eurozone crisis is having on construction and thus on downstream PVC demand, volatility in
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the energy complex continues to put upward pressure on the cost of ethylene negatively impacting producer margins. The spread between European spot ethylene and European spot PVC has been at its widest during the first half of the year, contracting for a month between late May and late June, before renewed volatility in the energy complex saw the spread widen again at the start of the summer.

"In order for margins to return to healthy levels, such as those enjoyed for instance in 2007, similar conditions would need to be restored in terms of healthy supply-demand balance and high utilization rates," said Gianmarco Migliavacca of ratings agency Moody’s.

Prior to the burst of the construction bubble, European production surplus could be absorbed by exports outside Europe. This is in turn meant that the industry was running at a near 90% operating rate, according to market observers. However, “despite around 670,000 mt of European capacity being reduced between 2008 and 2010, European installed capacity in 2012 still remains high compared to a declining demand and reduced export opportunities,” Migliavacca said.

Despite Ineos’ acquisition of Tessenderlo’s PVC assets in August 2011 and more recently Arkema's divestment of its chlor-vinyl assets to the Klesch Group, a deal that closed in July 2012, no major rationalization has happened in the sector.

However, according to Moody’s estimates European PVC consumption trends to a level slightly below 5m mt/year (in 2009, domestic demand back was around 4.3 million mt with exports not higher than 600,000 mt/year). “European PVC production would need to be only marginally above 5million mt, and an appropriate level of installed capacity would then need to be around 5.6m mt, in order to have a 90% average capacity utilization rate which we can consider as healthy,” said Migliavacca adding that this new level of required capacity would be some 600,000-650,000 mt lower than the level of 2010 (which was some 6.2 million mt).

Contracting outlook
The economic growth outlook for 2012 has clearly worsened, due to the dramatic tightening of budgetary policies and the plunge in business confidence.

Although the European Commission June’s Economic Sentiment Indicators survey, noted that “confidence recovered in construction in both the EU (+1.5) and the euro area (+2.1) partly offsetting [May’s] decreases,” overall confidence in construction on the back of worsened expectations in that sector in both regions.

Construction output forecasts have been reduced as a result of downward revision of macroeconomic forecasts. A more negative assessment of current order books contributed further to the deterioration in the EU.

According to research group Euroconstruct the worsening short-term economic prospects for has led to a significant downward revision to the construction forecasts for this year and next from -0.3% to -2.1% in 2012 and +1.8% to +0.4% in 2013.

The group also said that the North-South construction performance gap was apparent — only Denmark and Norway were projected to experience growth in excess of 2% per annum on average. Austria, France, Germany, Hungary, Poland Slovakia, Sweden, Switzerland and the UK were expected to see modest growth of between 0.1% and 2% a year over the 2012-14 forecast period. Meanwhile, the forecast for Belgium, the Czech Republic, Finland, Italy and the Netherlands put them in the no growth to moderate decline (0% to -3% a year) category, while Ireland, Portugal, and Spain saw construction activity still mired in deep recession.

POLYPROPYLENE: EUROPEAN CAR MARKET’S BUMPY OUTLOOK COLORS MARKET
The automotive industry is one of the major markets for European polymers, particularly for polypropylene, which is considered as the “king of plastics” by European carmakers.
Car manufacturers in Europe are increasingly using plastics to comply with the tightening environmental regulations and the consumers’ increasing need for fuel efficient vehicles at the back of soaring fuel cost.

Lightweight, tough polymers have been replacing car parts and components that were previously made of steel, metal and glass. This has made cars lighter, making them consume less fuel and therefore emit less carbon.

Various industry researches showed that the use of plastics in the European automotive industry has risen dramatically since the 1970s, accelerating further over the past decade as stricter green policies come into force and as energy prices become even more volatile.

At the moment, it is estimated that over 50% of a typical vehicle’s volume already consists of plastics and polymer composites which, in turn, account for only 10% of its overall weight. This benefitted not only the environment, but also car owners whom are now demanding fuel efficient vehicles in light of soaring fuel prices. According to industry reports, using 100 kg of plastics in a car can replace 200-300 kg of traditional materials. Each 100 kg of plastics, equivalent to less than 10% of a car’s weight, cuts fuel consumption by 750 liters over the average lifespan of a vehicle.

Since the turn of the century, polymers — led by polypropylene, polyurethane and PVC — have accounted for 105 kg, per average automobile built this decade. Twenty years ago, this figure stood at only a few kg per car.

**Auto industry regains traction in 2012**

The automotive industry may be an important market for polymers, but it is also turning into one of its most volatile ones as well, as demand for cars has become dependent on consumer spending and economic performance.

European car makers have found comfort in the export markets, particularly China, Japan and the US, where demand has been roaring ahead since the start of 2012.

Industry analyst LMC Automotive, for one, is expecting global demand for cars and other light vehicles to reach a new record of nearly 80 million units in 2012, up 5% from 2011, driven by the recovery in the US and continued growth in Asia, particularly China and Japan.

Latest data from VDA, the German trade body, showed sales of new passenger cars in seven largest markets rising by 14% in June to 4.9 million units, and by 9% to 27.6 million units in the January-June period, both on a year-on-year basis. The data accounted for more than three-quarters of total global sales.

June sales growth was largely driven by China, the world’s second largest car market, which posted a 15.6% growth to 1.1 million units, and the US where demand jumped 22% to 1.28 million units. Sales in Japan rose 46.8% to 432,600 units as the market recovered from the earthquake-induced slump.

Meanwhile within the EU, demand for new passenger cars has slowed down, with the number of registrations sustaining decreases that started in October 2011. Latest data from trade body ACEA showed registrations falling by 2.8% to 1.201 million units in June, and by 6.8% in the January-June period compared to their year-earlier levels, dragged mainly by the market downturn in crisis-hit Spain and Italy.

**Exports, new applications help carmakers ride out weak Europe**

“The exports markets helped the automotive industry cope with the downturn in Europe,” a Germany-based polymer producer said, noting his company was getting steadily increasing orders from the US and China while Europe languished.

“Polypropylene applications have also continued to increase and this has also kept the market afloat during tough economic times,” he told Platts in May.

“The share of polypropylene in the total weight of a passenger car is increasing each year. More and more parts like aluminum, steel and glass are now being replaced by PP,” another polymer producer said.” There is also a rapidly increasing trend among original equipment manufacturers (OEMs) to use PP, particularly for the next generation of cars that are being developed,” he added.

The increasing demand for electric vehicles is also turning into a bright spot for the PP market. Industry consultants Frost & Sullivan, in research published in May, said it is expecting EV production to grow over 80% until 2017.

“Plastics used in these vehicles will also see a tremendous growth,” it said in the report, which covered power train plastics, battery housing plastics, thermal management system materials and wire and cable plastic materials.

Robust demand from end-users like the automotive industry, combined with increased feedstock cost, helped drive PP contract prices up early in the year, reaching Eur1,550-1,555/mt FD NWE for homo injection grade on April 25-May 2, the highest since June 2011 and just a shade below the record peak of Eur1,575-1,580/mt, which was achieved in May 2011, Platts data showed.

PP contract prices have rallied by 25% between January and April on the back of soaring propylene, the contract price for which touched a near one-year peak at Eur1,245/mt FD NWE in April, propelled by the jump in crude cost.

**Outlook for rest of 2012 bearish, growth to resume in 2013**

The EU’s gloomy economic outlook continued to be a main cause for concern, particularly in Western Europe where political turmoil and austerity measures looked set to drag recovery and depress confidence going forward.

With Europe gripped by crisis, carmakers have already scaled down capacity utilization, which is currently running at 66% – way...
Polymer end-user demand in a fragile eurozone

Polypropylene suppliers have felt the pinch as demand has subsided, something they attributed to a combination of tumbling feedstock cost and waning orders from end-users, including the automotive manufacturers.

The spot PP market quickly felt the shift, with spot prices plunging to Eur1,030-1,035/mt FD NWE for homo injection grade in early July, down from the year’s high of Eur1,350-1,355/mt reached in H1 April, which was near the record levels of Eur1,385-1,390/mt seen in early April 2011, according to Platts data. Spot prices soared 30% between January and April this year as oil prices rallied.

However, automotive industry experts expect growth to resume in 2013, with production of light vehicles estimated to increase 4.5% from 2012 to 20.5 million units, aided by the 12% output increase in Eastern Europe to 7.6 million units. Western European output, meanwhile, is seen broadly steady at 12.78 million units, industry estimates showed. Nearly a fifth of these cars will continue to head out of Europe, with exports seen reaching 3.3 million units.

While the industry steadily recovers the world over, Europe will continue to run into macroeconomic challenges, with the sentiment in the car market in the continent seen to continue to vacillate between optimism and fear, analysts said.

below the 80% needed for companies to achieve a reasonable rate of return on capital. This in turn has made a dent on production, which is expected to drop 4.3% this year to 19.6 million units. Nearly a fifth, or 3.27 million units, of this output will be exported, largely to US and China, 6.5% more than the 2011 levels, LMC had forecasted.

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