

Germany Petrochemicals Report Q4 2016

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Abstracts

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BMI View: Germany's petrochemicals industry will be hit by the impact of Brexit due to its reliance on export-oriented industries, particularly the automotive sector, as well as its role as a major petrochemicals supplier in Europe. The sector was already seeing a downturn in sales volumes before the UK's vote to leave the EU, suggesting existing weaknesses in the economy are likely to be exacerbated by the uncertainty caused by Brexit. However, we expect that the effects will be short-lived and that a 'new normal' will arise when uncertainty dissipates. German petrochemicals producers are in a stronger position than their peers to weather the storm, and growth will rebound from 2017.

The German chemicals industry has witnessed a strong downturn in activity in recent months, indicating that it was already under pressure before the surprise vote for Brexit in the UK. In H116, German petrochemicals output declined by a marginal 0.2%, indicating the industry was in a period of stagnation. However, with prices down 2.0% year-on-year (y-o-y), domestic chemicals sales fell 4.0% and chemicals exports declined 3.5%.

The weak and volatile external demand picture is compounded by a longer-term trend of eroding export competitiveness, which is starting to make itself felt in the country's key industrial sector. While Germany remains relatively competitive compared with its eurozone peers, the economy has lost significant price competitiveness against non-eurozone industrial economies since mid-2012. With the eurozone taking most of Germany's chemicals exports, it will play a crucial role in the sector's performance. A positive outlook earlier in the year eroded as doubts emerged over the sustainability of the recovery. On the upside, the German chemicals and petrochemicals industries are in a better position to compete, both due to the efficiency of production and the level of

specialisation and added value.

For 2016, BMI has downgraded its forecast for chemical output growth from 1.0% to 0.5%. However, producer prices are anticipated to fall by 2.0% and sales will decline by a similar amount to EUR185bn.

Germany will feel the impact of Brexit via weaker export growth and reduced private sector confidence as European political and economic risks rise, and we have revised down our real GDP growth forecasts for the country.

Germany's domestic demand story will still remain robust, with household consumption and residential construction growing strongly in the next few years, although the export-oriented automotive industry - which relies on petrochemicals for a third of its raw materials - will suffer a downturn. As such, the risks are balanced, even though there is some short-term uncertainty, and consequently we do not consider any major reduction in petrochemicals capacity.

Contents

BMI Industry View

SWOT

Political

Economic

Operational Risk

Industry Forecast

Table: Germany Petrochemical Sector - Historical Data & Forecasts

Macroeconomic Forecasts

Economic Analysis

Industry Risk/Reward Index

Europe Petrochemicals Risk/Reward Index

Table: European Petrochemicals Risk/Reward Index (scores out of 100)

Germany Petrochemicals Risk/Reward Index

Market Overview

Industry Trends And Developments

Refining

Company Profile

BASF Aktiengesellschaft (BASF)

Table: BASF Annual Results (EURmn)

BP Refining And Petrochemicals GmbH

Table: BP Financial Results (USDmn)

Regional Overview

Europe Overview

Global Industry Overview

Demographic Forecast

Demographic Outlook

Table: Population Headline Indicators (Germany 1990-2025)

Table: Key Population Ratios (Germany 1990-2025)

Table: Urban/Rural Population & Life Expectancy (Germany 1990-2025)

Table: Population By Age Group (Germany 1990-2025)

Table: Population By Age Group % (Germany 1990-2025)

Glossary

Table: Glossary Of Petrochemicals Terms

Methodology

Industry Forecast Methodology

Risk/Reward Index Methodology

Table: Petrochemicals Risk/Reward Index Indicators

Table: Weighting Of Indicators

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