

A watchful eye on Western Europe



Only a few months ago it would have been unthinkable to perceive a situation where there would be only a handful of aeroplanes flying over Europe, with the vast majority of European citizens required to stay at home at all times and economic activity having ground to a halt. Yet, this is the situation in Western Europe at the time of writing this article.

This article attempts to review the cement market in Western Europe over the last 15 years, assess

the path that the sector has taken over that time and perhaps identify trends that might be useful for assessing the new crisis. This is mainly a data driven article based on the CemBR Global Compendium (CGC™), a comprehensive cement-related database. Western Europe (for this article) encompasses Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

Claudia Stefanoiu, CemBR, reviews the path that the cement market in Western Europe has taken over the last 15 years and addresses the trends that could help to assess the impact of the COVID-19 crisis.



The path of the Western European cement sector since the previous crisis

Cement consumption

The market reached its highest demand level in 2006 when 222 million t of cement was consumed. In 2019 cement consumption was recorded at around 135 million t.

There are several messages that can be derived from this data. The main observation is that the Western European cement market has not recovered to the pre-financial crisis levels. A secondary observation is that the Western European market was in decline from 2006 to 2013, its lowest consumption year. Finally, since 2013 the market has experienced a subdued recovery.

Between 2006 and 2019 the market declined by a CAGR of close to 4%. However, this decline was divided into two periods: 2006 – 2013, when demand dropped by around 8% CAGR, and the 2013 – 2019 period, when demand recovered by around 2% CAGR. So, what does this mean? From the onset of the financial crisis in 2007, it took six years before the market registered growth for the first time. All intervening years (2007 – 2013) experienced decline or stagnation.

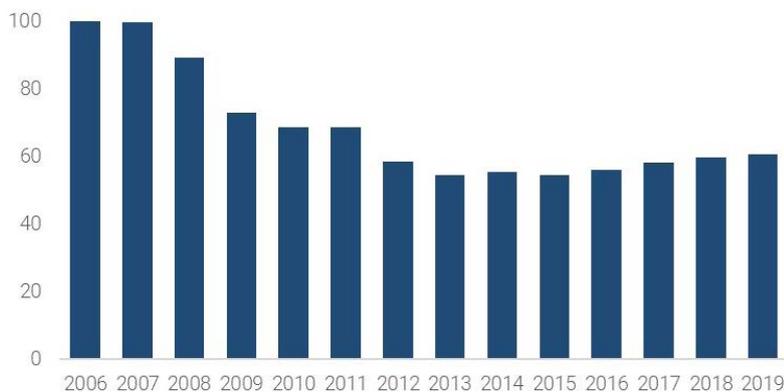


Figure 1. Western Europe – Consumption Index (2006 = 100).

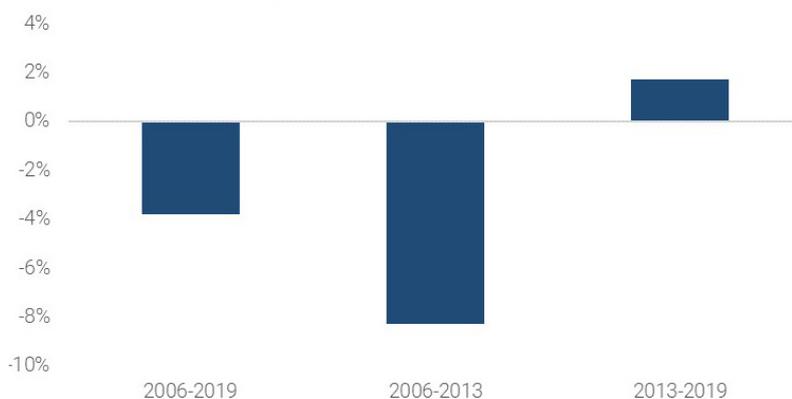


Figure 2. Cement consumption over the 2006 – 2019 period – CAGRs.

Per capita

The per capita progression in the period followed a similar pattern to cement consumption given that population growth registered a meagre 0.4% CAGR (2006 – 2019).

It appears that per capita consumption experienced a structural decline in Western Europe over the period. From the mid-500s kg in the first two years to around 300 kg in the last few years. Although almost every market in the world experienced a reduction in per capita consumption following the financial crisis, it would be challenging to identify another market that has persistently and structurally lowered its per capita to such a degree.

Even prior to the current pandemic situation, no observer of the industry anticipated a return to the 2006 – 2007 levels of per capita consumption. Ultimately, the Western European cement market has never recovered from the 2007 – 2008 crisis and it is unlikely to do so in the foreseeable future.

Country performances

As always, the performance of the various countries making up Western Europe has not been homogeneous over the last 15 years.

The southern countries of Western Europe experienced the largest reversals in demand in the first part of the period and subsequently the largest recoveries. The only exception is Italy where consumption declined in both periods. It is universally accepted that most of these countries had created a significant construction 'bubble' prior to the crisis.

Large markets such as France and Germany experienced much less volatility in cement consumption over the two periods; although France has experienced negative rates in both periods, these were of small amplitude. The only countries that did not experience a decline in both periods were Belgium and Sweden. Finally, Switzerland was the only one that grew in the first period and declined in the second.

Another complication for the sector

Throughout this entire period, the Western European cement industry had to adapt to a new way of doing business – one that considered the environmental

impact of clinker production. The EU ETS was launched in order to curb CO₂ emissions. However, the EU ETS failed to do so (with a reduction of only 0.4% CAGR in kg of CO₂/t of clinker during the 2005 – 2018 period for the entire system), and instead it acted as the driving force behind the delayed closure of otherwise uneconomical plants and enhanced the financial performance of several European based cement producers.

Phases I and II, running between 2005 and 2012, were characterised by generous free allowances during a time when cement demand experienced significant reversals. Phase III (2013 – 2020) represented a step forward in reducing free allowances and 2013 alone acted as a ‘corrective year’ when cement companies that delayed the mothballing of marginal assets decided to throw in the towel. Phase IV, scheduled to start in 2021 but potentially delayed now to 2022, is touted as the ultimate system correction.

Integrated cement plant closures

Between 2008 and 2019 there were 45 integrated cement plant closures in Western Europe, with some transitioning first to grinding operations only. The impact of integrated cement plants’ restructuring in Western Europe is even larger when kiln closures are considered; there were numerous instances, especially in the southern

part of Europe, of multi-kiln cement plants that kept only their most efficient kiln operational.

Thus, plant closures across the region have been in waves. There were some plant closures in the immediate aftermath of the financial crisis mainly in northern countries. In Southern Europe the immediate reaction to the crisis in terms of plant closures was relatively subdued, but when it became clear that cement consumption in the major markets of the region was increasingly unlikely to ever return to the pre-crisis levels, a new wave of closures followed beginning in 2013.

Overall messages

What are the messages from the above analysis regarding the Western European cement market?

A structural decline in the market between 2005 and 2019 indicates that pre-crisis cement consumption was inflated by an unsustainable construction boom in several countries. The market required six years to show some growth. This delayed action was probably due to both the pre-crisis unsustainable levels and subdued economic recovery. The performance of the countries making up Western Europe has not been uniform, with some experiencing reversals of epic proportions.

The EU ETS failed to achieve its purpose, and indeed acted as a supporting mechanism to otherwise unsustainable cement plants across the region. Nevertheless, the closures of plants were numerous, depleting the production capacity of the region significantly.

This new crisis finds the Western European cement sector in an apparently beleaguered state. Adding the uncertainty of Phase IV of the EU ETS (the details of implementation are currently under review by the EU authorities), raises the level of risk in the sector.

With this in mind, there are several questions regarding the impact of yet another crisis on

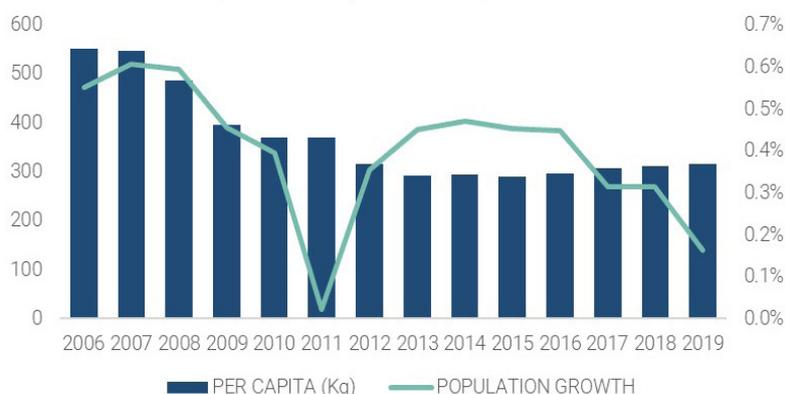


Figure 3. Per capita consumption and population growth.



Figure 4. Cement Consumption CAGR by country – comparative view.

the sector. How strong is the financial position of the market participants? How precipitous might the decline in cement be in Western Europe? Will the market experience a sharp rebound once the situation is under control? Will the combination of the Phase IV of EU ETS and demand declines lead to more plant closures?

The new crisis

Today, we are faced with the pandemic crisis. It is an unpleasant but nevertheless true assertion that Western Europe is one of the worst hit regions by this scourge. As a result, large, prosperous, and proud countries find themselves in an increasingly vulnerable position.

The macroeconomic picture

Several financial institutions have expressed views on the economic impact due to the current pandemic crisis. In April 2020, the IMF presented its 2020 – 2021 post onset of pandemic forecasts. The IMF says that the Euro area GDP will decline by 7.5% (Italy: -9.1%, Germany: -7%, Spain:

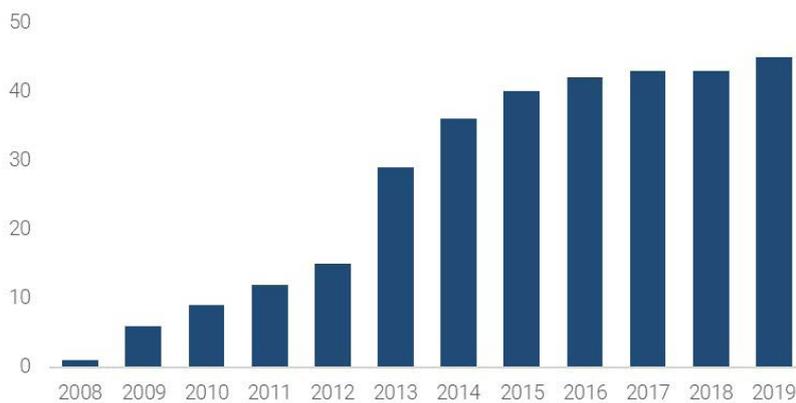


Figure 5. Cumulative plant closures 2008 – 2019.

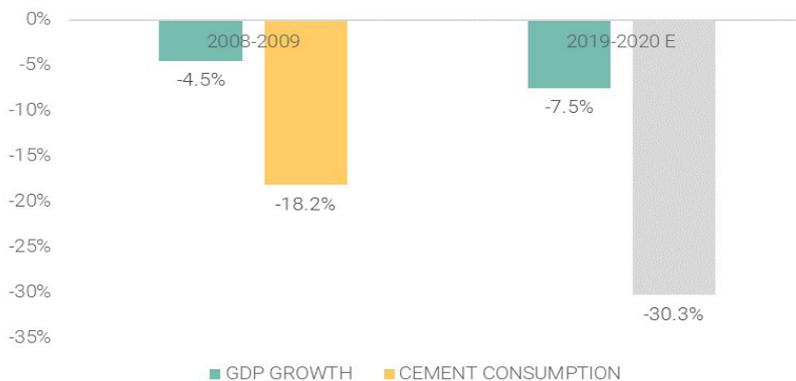


Figure 6. Potential impact of the current crisis on cement consumption: The grey column shows the potential impact on cement consumption if it were to follow the same path as it did in the 2008 – 2009 period versus GDP. There are five countries in the Western Europe region as defined in this article that do not belong in the Euro area but are assumed to follow similar macroeconomic trends.

-8%, France: -7.2%) and the UK by -6.5% in the current year. Overall, the IMF suggests that the advanced economies' GDP will decline by 6.1% in 2020.

The above scenario is based on certain assumptions regarding the destructive path of the pandemic and the measures that the global economies will take to fight it. The IMF states: "The global economy is projected to contract sharply by -3% in 2020, much worse than during the 2008 – 09 financial crisis," and, "The risks for even more severe outcomes, however, are substantial". These are dire projections indeed. However, the IMF also sees a rebound of 4.7% in the Euro Area in 2021, if all goes to plan.

Potential impact on the cement sector

How might such a macroeconomic scenario impact the cement sector in Western Europe? The 2008 – 2009 macroeconomic and cement consumption figures have been analysed to allow some sort of comparison between that crisis and this.

Of course, this analysis comes with several caveats and it is done for the purpose of showing the potential impact of the pandemic on the Western European cement markets.

A more analytical approach to this (something that CemBR is currently doing) is to follow certain cement related aspects during the ongoing crisis. This involves asking questions such as:

- ▶ Is construction activity being put on hold?
- ▶ What are the cement deliveries in a specific market (where such data is available on a monthly basis)?
- ▶ Which cement operations have been shut down and for how long?
- ▶ What happens to construction as countries come out of a lock down?

By following these aspects, it may be possible to be able to arrive at a more accurate assessment of the impact of the current crisis on the cement sector.

However, a more important question may be the level of recovery following the resolution of the current crisis. The IMF suggests that 2021

will be a 'rebound' year for the world economy. But as economies restart, where will cement (construction activity) figure in Western European governments' agendas?

Uncertainty for the future

Will Western European governments embark on ambitious and large infrastructure projects? Or will other sectors of the economy compete for the limited cash that will be available? Reducing mounting debts and desolated sectors of the economy (airlines, tourism, health care, recreation, etc.) might prove more compelling investment destinations for cash-strapped countries. In addition, the 'cash hoarding' strategy of many large corporations (cutting down on all but essential CAPEX) might prove detrimental to the prospects of the cement sector in Western Europe.

And yet, there are some signs of hope: the commitment of the UK government to the HS2 (High Speed Two) multi-billion-pound rail project despite significant opposition, is one such hope. Will the other Western European governments follow such a strategy? How will countries such as Italy, Spain, Portugal and Greece manage to recover if they do not receive significant cash injections from the EU? Will they have the wherewithal to invest in infrastructure?

These are some very fundamental questions for which the answers will dictate the performance

of the Western European cement sector following this crisis. There are hundreds more questions and imponderables that may impact the sector. The psychological condition of Western European populations is one; will the people of Europe regain their confidence and embark on a buying spree (buying a new home for example)?

It is now certain that 2020 will be a very challenging year for the Western European cement sector. However, the depth and duration of this crisis cannot yet be defined. Will the sector rebound in one fell swoop by the end of 2021, and at least return to the 2019 levels? Or will it follow a similar pattern to the post 2007 – 08 financial crisis, when the sector needed six years to begin some sort of recovery. Will the 2020 consumption levels become the new normal?

CemBR is following all developments in the industry (globally) and will communicate with clients and friends as things become clearer. ■

About the author

Ms Claudia Stefanoiu is the Head of Research at CemBR. CemBR (Cement Business Research) is a global provider of data, information, and insights in the cement sector. CemBR will be launching the CemBR Global Compendium (CGC™) later this year.