

Brussels, 24 September 2020

COVID 19 - FLEXIBLE POLYURETHANE FOAM INDUSTRY UPDATE

Following earlier communications in April and June 2020, and based on continued interviews of our members and experts in the flexible polyurethane foam industry, the situation in Europe's foam industry to date can be summarised as follows:

1° Comfort Supply Chain (Slabstock Foam Plants)

Slabstock foam plants serving primarily the comfort industry (bedding and upholstered furniture) are operating close to maximum capacity since mid-June across the continent.

Indeed, production of foam for the comfort industry recovered better than anticipated from the end of May onwards. Demand is mostly driven by the fact that Europeans travelled less for holidays and worked more from home. Many have invested in home improvements or office furniture. Online sales of mattresses (often with a PU foam core) have also been very strong over the past months.

Our last Covid-19 update in June showed increasing production and demand from mid-May onwards, with most foam producers expecting to reach production levels comparable to last year as from the end of June. This forecast was confirmed and has continued for July and August with a significant number of companies reporting double digit growth over the same months in 2019.

Regional differences mentioned in previous reports seem to have largely equalised out, with all foam producers reporting very high demand and production volumes – resulting in extra shifts and the cancellation or curtailment of traditional holiday shutdowns in the summer months as many plants were operating at near maximum capacity.

Going forward, in the comfort sector, all companies are reporting strong order books until at least October with good overall momentum for November and December. This would leave most with a “reasonable to good 2020” – ranging from -10% at worst to +10% at best in volume terms. Most companies anticipate being in the zero to +10% range in turnover, driven by raw material price increases.

This quite optimistic outlook until the end of the year in the comfort supply chain (considering where the industry came from in the period March to mid-May) is however tempered in all interviews with foam producers by concerns on price volatility for nearly all raw materials and security of supply issues.

Commenting on the current situation as a whole, EUROPUR's President, Bart ten Brink, said: "Clearly, 2020 is a year, where planning, supply and demand are difficult for all stakeholders in the supply chain. In the comfort sector, we are in the lucky position that so far we are catching up on a very difficult period from early March to Mid-May. This is unfortunately not the case in the automotive sector. But also, next year remains very uncertain. What the flexible polyurethane foam supply chain now really needs is stability, in terms of availability of raw materials coupled with eliminations of pricing uncertainties, the upside as well as the downside. Too high volatility in both aspects will make the recovery more challenging. Only with predictable and stable supply, demand and pricing, can the whole value chain potentially recover from these unprecedented circumstances that we have faced in the last 6 months".

Beyond the end of 2020, it is very uncertain as of yet how the demand for foam in the comfort industry will evolve, due to uncertainties on the overall situation of European economies. We will thus provide a new update towards the end of the year.

2° Automotive Supply Chain (Slabstock and Moulded Foam Plants)

The feedback in the automotive sector is in stark contrast to that in the comfort supply chain. Already in the first months of 2020, new passenger car registrations were down over 7% in the EU compared to last year according to the European Automobile Manufacturers' Association (ACEA). As a result, before lockdowns linked to Covid-19 were put in place in March, large numbers of new cars were already being stored on parking lots across Europe, waiting to find their first owner. As lockdowns eased, car sales restarted, to reach the same levels as last year in July as reported in ACEA data, supported by subsidies in many European countries. This helped decrease the amount of stock accumulated but did not support a rapid return to production levels of last year.

Indeed, as car plants progressively restarted operations in the course of May, foam producers report that production probably reached about 50-60% of 2019 volumes over June with great differences from one OEM or to the other. Overall production did however not increase further over the summer, with several OEMs closing factories for holidays for longer periods of time than in normal years. As a result, foam producers serving the automotive supply chain are still operating under reduced activity and continue to make use of government support schemes for temporary unemployment where available.

In September, a leading institute forecasted a decrease of vehicle demand in Europe by 18% compared to 2019, from 20.2 million vehicles to 16.4 million.
