

Brussels, 17 June 2020

COVID 19 - FLEXIBLE POLYURETHANE FOAM PLANTS (SLABSTOCK) STATUS

Following earlier notes shared on 7 and 27 April 2020, and based on continued interviews of our members and experts of the foam industry, the situation in Europe's foam industry to date can be summarized as follows.

Foam plants are now open and operating again across Europe. The plants that were closed in April reopened progressively in the course of May.

1° Slabstock Foam for Bedding and Upholstered Furniture

Foam production for the comfort industry recovered better than anticipated in May. At the end of April, the estimate was that production in May would be down 50-60% compared with last year. The interviews we have carried out over the past two weeks indicate that the second half of May showed a much stronger and faster recovery than anticipated and that production during the month was effectively down 30 to 40% compared to last year. June shows further signs of recovery, with most plants planning to produce about 80% or more compared to the same month in 2019. Depending on the markets they serve, some plants perform even better and anticipate their production to be equivalent or even slightly higher than last year. Generally, the UK and Russia, which are 2-3 weeks behind the rest of the continent in terms of re-opening retail perform less well, as is Iberia although there the situation is greatly variable from one company to another. On the negative side, many foam plants report that they are confronted with demands for longer payment terms from their customers or reduced credit insurance for exports.

The great uncertainty at this stage is how demand for foam will evolve over the summer and the rest of the year, in the absence of published forecast for demand of mattresses and furniture. Most foam producers have difficulties planning beyond July at this point in time. The question indeed remains as to whether the rapid recovery is mostly due to the restart of the supply chain or whether there is real sustained demand for mattresses and furniture. Much will depend upon how European consumers react to the widely anticipated degradation of the wider economy in the months to come.

On one hand, there are encouraging reports from Western Europe that consumers were able to save significantly during the lockdowns and expectations that, rather than going on holidays to distant destinations, they could rather seek to invest into their homes' equipment. But these relatively positive expectations are balanced by hard forecasts. The European Commission expects the European Union's GDP to fall by an unprecedented 7.4% in 2020 and unemployment to rise sharply¹. This is to be

¹ Source: European Commission, [Spring 2020 European Economic Forecast](#), 6 May 2020.

compared with 2008-2009 where the fall in EU GDP was 4.3%. Consumers may therefore be encouraged to reduce spending and prepare for difficult months to come.

2° Slabstock and Moulded Foam for the Automotive Sector

The situation is quite different for slabstock foam and moulded foams produced for the automotive sector. With nearly all automotive plants closed through April, production of flexible PU foam for that supply chain was virtually nil during that month. Most automotive plants started re-opening early May but at low volumes. Report from our rounds of interviews indicated that production of moulded PU foams in May was far below 50% compared to the same period last year, probably closer to 35-45% on average. Companies expect volumes to increase for June, at around 60% of last year's production overall, with great differences depending on the OEMs they serve and the countries they are located in.

Similar to the mattress and furniture industry, it is very uncertain how the situation will evolve for the rest of the year. In June, a leading institute forecasted a decrease of vehicle production in Europe to decrease by 24% compared to 2019, from 21.2 million vehicles to 16 million. It is our opinion that - considering the plant closures in April, low volumes in May and June, with expected low demand for new vehicles for the rest of 2020 – even these forecasts could still be challenging.
