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Rue Belliard 40 / Belliardstraat 40,
1040 Brussels – Belgium

www.ceemet.org
@ceemet

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Ceemet paper on the economic consequences of the conflict in Ukraine

Ceemet deplores the ongoing invasion of Ukraine by Russia. After decades of peace in Europe, this tragic situation has brought about the unthinkable. Inevitably, following the beginning of this conflict, we are seeing unforeseen economic consequences play out in front of our eyes. These range from increasing energy costs and high inflation to supply chain problems as well as the numerous drags on economic growth.

We are noticing a slowing of the supply of Russian gas in Europe, which is extremely worrying. However, if we consider the possible complete cessation of the supply of that gas, the consequences for our industries are unimaginable. The reality of this threat can be seen in the recent sudden increase and decrease of electricity, oil and gas prices. In addition, gas is needed for the production of process heat. A possible gas embargo would bring metal production and processing to a complete standstill within a few days in some countries, including Germany. Compensation through other energy sources is impossible, at least in the short term. A serious disruption of the value chain would affect the entire industry within a very short time.

The risks associated with inflation continue to increase, and we see a possibility of double digit inflation rates in 2022 in some countries. Inflation, currently around 5 or 6% in many European countries, is driving up the cost of living. This in turn is causing a loss of buying power in the economy which is directly affecting manufacturers' bottom lines.

Looking at one of the MET industries' most important sectors, Ukraine is a main exporter of automotive parts to Europe. According to the Ukrainian economic development agency Ukraine invest, there are 22 foreign companies based in Ukraine that manufacture parts for the automotive industry in 38 factories. If this war continues in the longer term this will nearly certainly cause a recession due to the fact that automotive plants will have to close. Taking Germany as an example, if automotive plants are not producing for five weeks, this could lead to a 1 percentage point decrease in the national GDP. Furthermore, Ukraine supplies about 50% of the world's neon gas, a crucial product for the manufacture of semiconductors, the supply of which is already under huge strain. Neon will certainly increase in price in the coming weeks and months, further aggravating an already tense situation.

Looking at Russia, it accounts for 5% of aluminium production, 7% of nickel, 4% of copper and 2% of zinc. However, most importantly Russia is the second largest exporter of aluminium in the world, the majority of which goes to Europe. Russia also accounts for 17% of global steel trade. Since the beginning of the conflict, steel prices have increased considerably, and alternatives can hardly be found. Companies report that European steel mills are working at full capacity and would no longer accept new orders. If we follow this logic, we can expect increases in the prices of all of these metals. This is on top of already historically high commodity prices.

Add all these issues together with decreasing investor confidence as well as a diminishing of international trade, we have a recipe for some unstable economic scenarios. MET economists see the possibility of two broad economic scenarios: a shorter war scenario which may result in up to a 1 percentage point, or slightly above 1 percentage point decrease in GDP figures; and a longer war scenario where we could see beyond a 3 percentage points decrease in GDP figures.

From a Ceemet perspective, the GDP decline is largely driven by a decline in industrial production. The current sanctions and supply chain disruptions are mainly hitting the MET industries. A significant drop in production perspectives and a resurgence of short-time work can already be expected. In the event of a prolonged conflict or an energy or commodity embargo, the MET sector faces negative growth figures.

An escalating conflict with continued energy challenges, alongside high prices and low growth, coupled with a recession, could bring us back to the 1970s where we saw the dreaded stagflation take hold of our economies. If you combine this with supply chain issues which are predicted to affect our industries well into 2023, particularly automotive parts and neon gas, alongside increased commodity prices, we could very well see the breaking of economic records, and not in a positive context.

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About Ceemet

- Ceemet represents the metal, engineering and technology-based industry employers in Europe.
- Member organisations represent 200,000 companies in Europe, providing over 17 million direct and 35 million indirect jobs.
- Ceemet is a recognised European social partner at the industrial sector level, promoting global competitiveness for European industry through consultation and social dialogue.