Chemical Activity Barometer Flat

The American Chemistry Council (ACC) recently released the second monthly report of its Chemical Activity Barometer (CAB), a new leading macroeconomic indicator. The July CAB was flat after declining three consecutive months, historically a sign of slowing economic activity.

“July data continues to suggest that broader U.S. economic growth in the second half of 2012 will be weak, while the CAB also suggests a slowing of U.S. exports during the rest of the year,” said Dr. Kevin Swift, chief economist at ACC. “Looking at the data, one bright spot for the economy is the positive trends in the light vehicles and housing sectors, which could possibly suggest a forward momentum building in these sectors.”

The chemical industry’s early position in the supply chain uniquely positions the CAB against other economic indicators. The CAB provides a long lead for business cycle peaks and troughs, and can help identify emerging trends in the wider U.S. economy within sectors closely linked to the business of chemistry such as housing, retail and automobiles. Applying the CAB back to 1947, it has been shown to provide a longer lead (or perform better) than the National Bureau of Economic Research (NBER), by two to 14 months, with an average lead of eight months. NBER is the organization that provides the official start and end dates for recessions in the U.S.

The preliminary July data from the CAB remained steady at 88.5 from previous the

month. This follows three consecutive months of decline.

Data showed production-related chemistry indicators were mixed at best. In addition, trends in plastic resins used in consumer and institutional applications have softened, and overall trends suggest slowing U.S. exports.

This is the second monthly report of the Chemical Activity Barometer. It was developed by the economics department at the American Chemistry Council. The chemical industry has been found to consistently lead the U.S. economy's business cycle given its early position in the supply chain, and this barometer can be used to determine turning points and likely trends in the wider economy.

The CAB's three-month moving average (3 MMA) declined in July, suggesting muted growth prospects in the months ahead.

Of its key indicators, production-related indicators, chemical company equities and inventories remained flat, while prices were down. Other conclusions over the past three-month moving average basis and how this compares to July 2011:

Chemical Activity Barometer for the Latest Six Months and Year-Ago Month

	Jul 11	**Feb 11**	**Mar 12**	**Apr 12**	**May 12**	**Jun 1**
CAB	**89.7**	**89.8**	**90.3**	**90.0**	**89.4**	**88.5**
% M/M	0.5	0.2	0.6	-0.3	-0.7	-1.0
% Y/Y	3.5	-0.1	-0.4	-0.1	-0.3	-0.9
CAB (3 MMA)	**89.6**	**89.5**	**89.9**	**90.0**	**89.9**	**89.3**
% M/M	-0.1	0.6	0.5	0.2	-0.1	-0.7
% Y/Y	3.0	-0.2	-0.1	-0.2	-0.3	-0.4

*Percentage changes may not reflect index values due to rounding.

During July, the various components of the CAB:

Production	**?**
Chemical Company Equities	**?**
Hours Worked	**?**

Prices	**?**
Inventories	**?**

Where **?** is continued growing activity; **?** is flat or insignificant growth in activity; and **?** is slowing or negative growth (declining activity).

The CAB comprises indicators relating to the production of chlorine and other alkalies, pigments, plastic resins and other selected basic industrial chemicals; chemical company stock data; hours worked in chemicals; publicly sourced, chemical price information; end-use (or customer) industry sales-to-inventories; and several broader leading economic measures (building permits and new orders). Each month, ACC provides a barometer number, which reflects activity data for the current month, as well as a three-month moving average. Month-to-month movements can be volatile so a three-month moving average of the barometer is provided. This provides a more consistent and illustrative picture of national economic trends.

The chemistry industry is one of the largest industries in the United States, generating $760 billion. The manufacturing sector is the largest consumer of chemical products, and 96 percent of manufactured goods are touched by chemistry.

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