

# Cold Weather Won't Keep Chemical Equity Prices Down

American Chemistry Council

WASHINGTON - While winter weather extremes continue to impact economic reporting, strengthening chemical equity prices drove solid gains in the American Chemistry Council's (ACC) monthly [Chemical Activity Barometer \(CAB\)](#) [1]. March's reading featured a gain of 0.3% over February on a three-month moving average basis (3MMA), rebounding past the average 0.2% gain in late 2013, and pointing to modest but continued growth in the U.S. economy through the fourth quarter of 2014. Strengthening chemical equity prices in February and March are a positive signal and a major factor in this month's CAB reading. The economic indicator, shown to lead U.S. business cycles by an average of eight months at cycle peaks, is up 2.5 percent over a year ago, at an improved year-earlier pace. The CAB reading for February was revised upwards slightly from earlier reports.

"Winter weather extremes have carried into March and continue to impact many of the economic readings, but all signs point to an expanding U.S. economy through 2014," said Kevin Swift, chief economist at the American Chemistry Council. "Strengthening chemical equity prices, combined with the expansion of sales in intermediate goods, which constitute roughly 85% of overall chemical sales, are encouraging signs for the continued health of the U.S. economy."

Overall results in the four primary components of the CAB were mostly positive, with production, equity prices and new orders up, while product/selling prices were flat. Production-related indicators such construction-related coatings, pigments, and plastic resins all improved.

The Chemical Activity Barometer is a leading economic indicator derived from a composite index of chemical industry activity. 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. 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.

Applying the CAB back to 1919, it has been shown to provide a longer lead (or perform better) than the National Bureau of Economic Research, by two to 14 months, with an average lead of

eight months at cycle peaks. The median lead was also eight months. At business cycle troughs, the CAB leads by one to seven months, with an average lead of four months. The median lead was three months. The CAB is rebased to the average

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lead (in months) of an average 100 in the base year (the year 2007 was used) of a reference time series. The latter is the Federal Reserve's Industrial Production Index.

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

	<u>Mar-13</u>	<u>Oct-13</u>	<u>Nov-13</u>	<u>Dec-13</u>	<u>Jan-14</u>	<u>Feb-14</u>	<u>Mar-14</u>
<b>CAB</b>	<b>92.0</b>	<b>93.6</b>	<b>94.0</b>	<b>94.1</b>	<b>94.2</b>	<b>94.4</b>	<b>95.1</b>
% M/M	-0.4	-0.1	0.3	0.1	0.1	0.0	0.8
% Y/Y	1.9	2.5	3.5	2.6	1.9	2.1	3.4
<b>CAB (3 MMA)</b>	<b>92.3</b>	<b>93.6</b>	<b>93.8</b>	<b>93.9</b>	<b>94.1</b>	<b>94.3</b>	<b>94.6</b>
% M/M	0.1	0.3	0.2	0.1	0.2	0.1	0.3
% Y/Y	2.7	3.1	3.0	2.9	2.7	2.3	2.5

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

The CAB comprises indicators relating to the production of chlorine and other alkalis, 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. The CAB was developed by the economics department at the American Chemistry Council.

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### Links:

[1] <http://www.americanchemistry.com/cab>