Leading Economic Indicator at Highest Since 2008

American Chemistry Council

The U.S. economy continues to improve, with forecasts now suggesting economic expansion into 2015, according to the American Chemistry Council's (ACC) monthly Chemical Activity Barometer (CAB), released today. The Chemical Activity Barometer is a leading economic indicator, shown to lead U.S. business cycles by an average of eight months at cycle peaks, and four months at cycle troughs. The barometer increased 0.4 percent over August on a three-month moving average (3MMA) basis. The barometer is up 3.3 percent over a year ago, with the index itself at its highest point since June 2008. Prior CAB readings for April through August were all revised.

"This 0.4 percent jump is a real improvement in growth dynamics from the smaller, yet steady, increases we saw from March through August," said Dr. Kevin Swift, chief economist at the American Chemistry Council. "The Chemical Activity Barometer is showing a strengthening of some fundamentals, with forecasts remaining positive. Indeed, there is potential for upside surprises in the U.S. economy," he added.

Swift noted that continued improvements in construction-related plastic resins, coatings, pigments and other chemistry are likely to continue, though at a moderated pace, suggesting that the rapid gains typically seen early in a recovery have given way to a slower pace of growth. Production of plastic resins used in consumer and institutional applications continues to grow at a strong pace, with the potential for even greater acceleration.

Chemical equities far outpaced the benchmark S&P 500; rising about 1.3 times faster, while downstream inventory, new orders, and production also 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 three months. The median lead was also three months. The CAB is rebased to the average 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.

The CAB was developed by the economics department at the American Chemistry Council.

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

	Sep-12	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13
CAB	91.0	92.3	92.7	92.6	92.9	93.0	93.6
% M/M	1.3	0.3	0.5	-0.1	0.3	0.2	0.6
% Y/Y	3.1	2.6	3.7	4.0	3.6	3.6	2.8
CAB (3 MMA)	90.2	92.2	92.3	92.5	92.7	92.8	93.2
% M/M	0.7	-0.1	0.1	0.2	0.2	0.1	0.4
% Y/Y	1.5	2.5	2.7	3.4	3.8	3.7	3.3

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

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. The CAB was developed by the economics department at the American Chemistry Council.

The next CAB is currently planned for:
22 October 2013
9:00 a.m. Eastern Time

Source URL (retrieved on *03/09/2014 - 1:59pm*):
http://www.chem.info/news/2013/09/leading-economic-indicator-highest-2008