U.S. Chemical Industry Poised For Dynamic Expansion

American Chemistry Council

WASHINGTON (December 17, 2013) – Favorable oil-to-gas price ratios driven by the production of natural gas from shale continue to drive a renewed U.S. competitiveness that is boosting exports, and driving greater domestic investment, economic growth and job creation within the business of chemistry, according to the Year End 2013 Chemical Industry Situation and Outlook [1], published last week by the American Chemistry Council (ACC).

Likewise, supported by activity within the domestic chemicals sector, the U.S. economy is likely to see continued, though moderated growth in 2014, according to ACC's monthly Chemical Activity Barometer (CAB), released today. The Chemical Activity Barometer is an established 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 ticked up to 93.9, a 0.1 percent increase over November on a three-month moving average (3MMA) basis. This marks the eighth consecutive monthly gain for the CAB, which remains up 2.8 percent over a year ago.

"American chemistry is back in the game," said Dr. Kevin Swift, ACC's chief economist. "After a decade of lost competitiveness, American chemistry is reemerging as a growth industry. We're seeing growing end-use markets; strengthening employment; surging exports; and an influx of tremendous capital investment. Put simply, the U.S. is now the most attractive place in the world to invest in chemical manufacturing," he added.

Swift pointed to several key points to illustrate the turnaround in the industry:

•Over the next five years production is expected to grow by almost 25 percent, pushing industry shipments to $1 trillion by 2018;

•For the first time since 1999, the U.S. chemical industry is seeing job growth;

•Shale gas and the surge in natural gas liquids supply has helped moved the U.S. from being a high-cost producer of key petrochemicals and resins to among the lowest cost producers; globally. As a result, exports are surging. The industry has gone from a chemicals trade deficit to a surplus, this year expected to be about $2.8 billion, and by 2018 reaching nearly $30 billion, from almost $300 billion in total exports;

•Capital investment is exploding. Beginning in 2010, as chemical manufacturers began recovering from the Great Recession there has been double digit growth in capital spending – including equipment upgrades and efficiency investments. Over the next five years we are likely to see more than $60 billion in domestic investment.

ACC's 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.

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

	Dec-12	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
CAB	**91.7**	**92.8**	**93.3**	**93.7**	**93.7**	**93.9**	**94.0**
% M/M	1.1	0.2	0.5	0.5	-0.1	0.3	0.1
% Y/Y	3.0	3.6	3.9	3.0	2.5	3.5	2.5
CAB (3 MMA)	**91.3**	**92.7**	**92.9**	**93.3**	**93.6**	**93.8**	**93.9**
% M/M	0.3	0.2	0.2	0.4	0.3	0.2	0.1
% Y/Y	3.1	3.8	3.8	3.5	3.1	3.0	2.8

*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:

28 January 2014

9:00 a.m. Eastern Time

The CAB is designed and prepared in compliance with ACC's Antitrust Guidelines and FTC Safe Harbor Guidelines; does not use company-specific price information as input data; and data is aggregated such that company-specific and product-specific data cannot be determined.

www.americanchemistry.com [2]

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