

Analyst: Limited Future Chemical Demand

NEW YORK (AP) — Expectations for limited volume growth and excess capacity in the chemicals industry, along with concern that raw material prices may rise before demand picks up, are drags on the sector, a Moody's Investor Service analyst said Monday.

James Wilkins, a senior analyst at Moody's, said the outlook for the chemicals sector remains negative.

"Although there has been a rebound in the last two quarters, producers continue to see limited future chemical demand, and we expect pressure on fourth-quarter 2009 results as downstream industries minimize their inventories toward year-end," said Wilkins.

Meanwhile, other challenges persist. While low commodity prices in late 2008 helped chemical companies by keeping costs cheap, these prices have partially rebounded, Wilkins said. This trend could persist and squeeze margins if demand growth in Asia raises commodity prices before demand in the U.S. and Europe fully recovers.

On the bright side, chemical production should see some gains as it tracks expected 2010 growth in industrial production in Europe and the U.S., Wilkins said.

"Any unanticipated event that stalls the recovery in industrial production will likely have a significant impact on most chemical companies," Wilkins said, noting that industrial production is a key to chemical demand.

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