MOMENTUM BUILDS

U.S. CHEMICAL OUTPUT SHOULD GROW FASTER THAN GDP FOR THE NEXT FIVE YEARS

By Thomas Kevin Swift, American Chemistry Council

DURING 2015, the worldwide manufacturing sector, which represents the primary customer base for the U.S. chemistry industry, continued to contend with market softness that started in 2014. However, U.S. chemical makers enjoyed competitive advantages due to shale gas. As a result, output of the U.S. chemical industry rose 3.6% last year — far better than the decline experienced in 2014 — and the prospects look bright for this year and beyond.

In the United States, the economy's growth remains below its potential as high taxes, debt and regulatory burdens still take a toll on both business and consumer confidence. Companies have been cautious and capital spending was slow in 2015. Furthermore, overseas weakness and a higher dollar dampened U.S. exports. That said, further improvements in the employment situation, lower oil prices that are fostering more discretionary income, and asset prices moving higher are prompting consumers to start to spend again.

The U.S. economy should grow modestly this year. We can anticipate this by examining the trends in the Chemical Activity Barometer (CAB) of the American Chemistry Council (ACC). The CAB is a composite index of economic indicators that tracks the activity of the chemical industry. (The CAB appears each month in *CP*'s Economic Snapshot; see p. 10 in this issue.) Due to its early position in the supply chain, chemical industry activity leads that of the economy as a whole and, thus, the CAB can point to potential turning points in the overall economy. The CAB currently is signaling slow economic growth into 2016. The consensus forecast this year is for the U.S. gross domestic product (GDP) to grow 2.6%, which is slightly above trend (Figure 1). This should ease slightly in 2018 and beyond. As of December, the current recovery and expansion has lasted for 78 months; the average for post-World-War-II upturns is 60 months. So, the current upturn is getting a little old. Using a baseball metaphor, we are in the seventh inning. Long-term growth in the U.S. economy will moderate due to demographic, policy and other factors.

Manufacturing output had improved in 2014 but activity stalled last year — marking the first year of this recovery and