News Release

For Immediate Release

Dec. 13, 2011

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ECONOMIC OUTLOOK FOR U.S. CHEMISTRY INDUSTRY MIXED; SHALE GAS OFFERS BRIGHT SPOT

-Shale Gas Production, Emerging Markets Key to U.S. Competitiveness and Exports-

WASHINGTON, D.C. (December 13, 2011) – Despite a slowdown in America’s economic recovery, the outlook for the U.S. chemicals manufacturing industry is more encouraging. According to the American Chemistry Council’s (ACC) 2011 Year-End Situation and Outlook published today, gradual improvement will occur in 2012, before a stronger recovery takes hold in 2013. Most major end-use markets for chemistry have recovered in the U.S., helping to maintain the $720 billion industry’s contribution to 26 percent of U.S. Gross Domestic Product (GDP).

Key to the domestic chemical industry recovery is access to vast, new supplies of natural gas from previously untapped shale deposits. After years of high and volatile natural gas prices, the new economics of shale gas are creating a competitive advantage for U.S. manufacturers, leading to greater investment, job creation and industry growth.

“For the first time, our economic outlook indicates a two-speed manufacturing recovery. Most major end-use markets for chemistry in the U.S. have recovered, though growth has slowed for overall U.S. manufacturing,” said Cal Dooley, ACC president and CEO. Dooley also noted that while developed nations, constrained by debt and tighter fiscal policies, are likely to expand chemistry production only moderately, output from emerging markets will increase more rapidly.

“The shale gas production boom is moderating natural gas prices and creating more stable supplies, which has allowed U.S. chemical manufacturers to become more competitive with producers abroad,” Dooley added.

The shale gas revolution

Ethane, a natural gas liquid derived from shale gas, is used as a feedstock by American chemical companies. Affordable natural gas and ethane give U.S. manufacturers an advantage over global competitors that use a more expensive, oil-based feedstock. Historically, an oil to natural gas price ratio of 6:1 or higher increases the global competitiveness of U.S. Gulf Coast-based petrochemicals and derivatives such as plastic resins. For the last several years this ratio has been above 7:1, but more recently the high ratio of oil to natural gas prices has been over 25:1, helping to spur capital investment in North America. An earlier ACC study projected domestic

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petrochemical investments of approximately $16 billion related to reasonable increases in ethane supplies. Looking at the broader chemical industry, capital investment is expected to exceed $25 billion, further fueling economic and job growth. “To sustain the recovery’s momentum, we need sound economic, energy and environmental policies that will encourage the growth of America’s manufacturing sector,” Dooley said.

Emergence of a two-speed manufacturing sector

Despite the subdued year, most major end-use markets for chemistry have recovered in the U.S., especially those tied to export markets and business investment. The boom in oil and gas is creating both demand-side (e.g., pipe mills, oilfield machinery) and supply-side (e.g., chemicals, fertilizers, direct iron reduction) opportunities and this is likely to continue. There is also strength in light vehicles and aircraft, a recovery in construction materials, and industries involved with business investment (iron and steel, foundries, computers, etc.) are still strong. In contrast, growth lags in a number of industries including textiles, paper and printing, indicating the emergence of a two-speed manufacturing sector, with about one-half of industries soft and others doing well.

Looking forward

The two-speed manufacturing industry will be mirrored in global prospects where developed nations grow slowly while the emerging markets grow rapidly as a result of industrialization and rising consumer-driven economies. This trend will continue. Along with favorable energy dynamics and a weaker dollar, the strong growth overseas will aid U.S. chemical exports in the years to come. The outlook for chemicals points to modest growth over the next several years and depends on strengthening domestic demand and an improvement in exports abroad. Exports were up nearly 11% to $189 billion in 2011 and are expected to exceed $230 billion in 2014.

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Prepared by ACC’s Economics and Statistics Department, the Year-End Situation and Outlook is the association’s annual review of the U.S. and global business of chemistry. It is used as a resource by a wide variety of industry participants, including chemical manufacturers and distribution companies, investment banks, consulting firms, governments, libraries and others seeking current analyses of economic trends information.

The 2011 Year-End Situation and Outlook is available as part of a larger subscription for $200. To order a copy, visit http://store.americanchemistry.com/
The American Chemistry Council (ACC) represents the leading companies engaged in the business of chemistry. ACC members apply the science of chemistry to make innovative products and services that make people’s lives better, healthier and safer. ACC is committed to improved environmental, health and safety performance through Responsible Care®, common sense advocacy designed to address major public policy issues, and health and environmental research and product testing. The business of chemistry is a $720 billion enterprise and a key element of the nation's economy. It is one of the nation’s largest exporters, accounting for ten cents out of every dollar in U.S. exports. Chemistry companies are among the largest investors in research and development. Safety and security have always been primary concerns of ACC members, and they have intensified their efforts, working closely with government agencies to improve security and to defend against any threat to the nation’s critical infrastructure.