Global Industry Forecasts

Industrial Overview

Divergences prompt modest downgrade...

- Contrasting regional and sectoral dynamics have prompted only a modest downgrade – of around half a percentage point – to our forecast for global growth in manufacturing both this year and in 2013. Having increased by 5.6% in 2011, manufacturing growth is now seen slowing to just 2¾% this year ahead of a moderate rebound to 4% growth in 2013. First-half data confirm that the US is proving a relative bastion of strength, driven by considerable pent-up demand for investment and transport equipment goods, offsetting faltering markets elsewhere (notably in Europe). However, considerable downside risks continue to surround this central forecast.

- This pattern of divergent trends – built into our 2012 forecast for some time – has been largely confirmed by recent data, even though concerns are rising about near-term prospects given the looming US fiscal cliff (which could result in a fiscal tightening of over 3% of GDP early in 2013 if Congress and the President fail to negotiate a compromise) and the on-going eurozone crisis. US data on industrial production through to July have been generally strong, with investment goods’ output from sectors such as mechanical engineering, aerospace and especially motor vehicles and parts leading the way. However, June and July’s ISM indices for manufacturing did dip fractionally below the 50 boom/bust line as the new order and production components slid, indicative of a likely second-half slowdown which could persist into 2013. On balance, our forecast for US manufacturing growth has therefore been left unchanged at 4¾% this year and just marginally lowered to 3¼% for 2013 – assuming only the payroll tax holiday (worth US$95bn) is allowed to expire and other tax hikes/spending cuts are avoided.

- In stark contrast, the deterioration across much of Europe has gathered momentum in recent months as policy steps from the European Central Bank and eurozone politicians have failed to convince businesses and households that the debt and banking crises will not intensify. Plummeting business and consumer confidence have been compounded by weakening export markets as the slowdown has spread from the countries at the centre of the crisis to their previously more buoyant neighbours to the north. Purchasing
Global Industry Forecasts

managers’ indices are now well into contraction territory for manufacturing, with even Germany’s flash index 45.1 in August (albeit up from 43.0 in July) and France’s being 46.2 (up from 43.4 in July) to give a 45.3 average for the eurozone as a whole (up from 44.0 in July). With several countries, including the UK, dipping back into recession, the pace of contraction in manufacturing this year is expected to be 1½% for the eurozone, with growth in 2013 falling back to just 1½%.

- The main surprise incorporated into the present forecasts is the deterioration observed in Japan in the second-quarter data, as the post-quake rebound ran out of steam sooner than expected. This resulted in a flattening in domestic demand which in turn was compounded by deteriorating exports as European and Asian demand growth became more subdued and the impact of the yen’s strength was fully felt. Manufacturing output growth is now only forecast to be 1½% this year, rising to 2½% in 2013.

- For the BRICs as a whole, manufacturing growth this year is still expected to be just over 7%, aided by first-half strength in China and our early pessimism about India and Brazil (relative to the previous consensus view) being confirmed. Lacklustre international trade data are raising concerns about downside risks, notably across Asia, but our central forecast is still for manufacturing growth to rebound into 2013 from the current weak patch, in part driven by policy stimuli in Brazil and China.

...as investment goods’ output holds up

- Looking at the sector forecast, the performance of the investment goods’ sector continues to impress. In part, ageing machinery and equipment together with an older vehicle parc are spurring replacement demand, as spending previously postponed can be delayed no longer. Improving corporate balance sheets and increasing access to finance at historically low interest rates (albeit with SME financing still an issue in many countries) are providing support to global investment goods’ output growth of 5½% this year and 4½% in 2013. Consumer goods’ growth is looking much more subdued, given the pressure on household budgets, at less than 1% this year.
Outlook by Sector

Construction
- In a majority of sizeable economies, recent trends in construction activity have disappointed with prospects for the immediate future also worsening. In addition, while this familiar pattern once again applies to the developed world, it is also true this time around for emerging markets. Construction output growth in the developed world is projected to be close to 2% in 2012, slightly above our previous projection, but largely thanks to the recent pace of recovery in the US surpassing prior expectations. Recent trends and near-term prospects have also worsened in a range of emerging markets, with growth across that region put at 5½% this year and 6½% next, compared with our previous forecasts of 6¼% and 7%.

Chemicals
- Eurozone chemical output is likely to fall further given weakening new orders and confidence data. Meanwhile, US output will also be held back given disappointing survey data but some respite will come from a gradual recovery in the construction sector and relatively low gas prices. Meanwhile, Japanese output – particularly ex-pharma – will be restrained by subdued Chinese growth and a strong yen. Overall, we expect global chemical output growth to slow to 2½% in 2012, from 4.1% in 2011, before picking up to 4¼% in 2013.

Basic Metals
- Demand conditions have deteriorated further and stock levels have risen. As a result, forecasts have been revised down. World production is now likely to grow by 2¼% this year, picking up to 4% growth in 2013 as the recovery gradually gathers pace.

Engineering & Metal Goods
- Engineering and metal goods output is forecast to grow by 3½% this year, far below the 9.9% rate in 2011, as firms re-evaluate their capital spending plans in the context of a flagging global recovery. Investment, a key sector driver, is forecast to grow by 3% worldwide in 2012, the weakest rate since the 2008-09 global recession. Output will fall in Europe and Japan in 2012 due to weak capital spending and falling capacity utilisation, while the US market has received a boost from pent-up domestic demand and backlogs that are at all-time highs. Global sector growth is expected to accelerate to 5% in 2013.

Electronics & Computers
- Global production of electronics and computers grew by 0.6% q/q in 2012Q2, as large falls in Europe and Japan were more than offset by US and Chinese gains. Looking forward, we expect this divergence to continue. We expect global growth of 3%, the same as three months ago, but we have revised down our forecast for global growth in 2013 by ½%pt to 6¾%.

Motor Vehicles
- Although brighter spots remain, vehicle producers are likely to face tougher conditions well into next year, albeit after a stronger-than-expected outturn in the first half of 2012. For 2012 as a whole, global production is now expected to rise by 9¾% before the sharp loss of momentum curtails global output growth to just 3% in 2013, its slowest rate since the 2008-09 contractions.

Aerospace
- With its bulging order book and long delivery times, the aerospace sector has significant protection against the deteriorating macroeconomic environment. Although the present order cycle probably peaked last year, few orders already booked have been delayed or cancelled (31 for Airbus and 71 for Boeing so far in 2012), so our forecast for aerospace output is little changed from that presented three months ago. Now, global production is forecast to expand by 6¾% both this year and next, ahead of an acceleration in 2014.

Consumer Goods
- Global consumer goods output growth slowed further in 2012Q2 and private consumption (the key driver of consumer goods output) is lacklustre. In the developed economies, severe fiscal retrenchment and high unemployment is weighing upon household budgets and consumer confidence. After a rise of 3.5% in 2011, world growth in consumer goods output is expected to slow to just ¾% in 2012 before rising to 3% growth in 2013.

Other Intermediate Goods
- Disappointing trends and the prospect of slower global demand growth in the near term mean that growth prospects for other intermediate goods producers are more subdued than previously. In the developed world, the unweighted average growth rate for mineral, rubber & plastic, fuel, wood and paper products, plus repair & installation of machinery, now stands at -½% this year and just 2½% next. Emerging markets growth prospects are also more subdued for 2012 and 2013.
### Global Industry Forecasts

#### INDUSTRIAL OVERVIEW

**Intermediate goods output**

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