

American Chemistry Council

Chemical Manufacturing Economic Sentiment Index

Economic Sentiment Index (ESI) Survey responses were collected from July 9-26.

Summary: Chemical manufacturers' assessment of their own company's activity level (e.g., sales, production, output) continued to improve over Q2, according to findings from ACC's Chemical Manufacturing Economic Sentiment Index (ESI). Sentiment around major customer market demand was also positive in Q2 as the ESI readings indicated strong growth in new orders (driven by strengthening domestic orders). Chemical manufacturers were optimistic about improving demand from major markets and their company's activity level over the second half of the year. They see economic conditions having improved in the U.S. but continuing to deteriorate globally. While chemical manufacturers are reporting improvement on many key business indicators, they have yet to experience relief regarding the level of regulatory burden which continues to rise every quarter and is anticipated to maintain that trajectory looking ahead.

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U.S. chemical production levels have been on the rise so far this year. The ESI reading for production levels was 24.3 in Q2. In Q1, about half of companies reported increased production. Coming off of that strong performance, 89% of companies said that production was either stable or rising compared to the previous quarter. Overall, chemical manufacturers expect further gains in production levels over the coming 6 months.

Chemical manufacturers reported strengthening domestic demand as **new orders** picked up in Q2. The volume of foreign orders declined, however. Companies expect continued acceleration in the volume of new orders over the coming six months, with gains in foreign orders outpacing growth in domestic orders.

The **volume of order backlogs** index flattened over Q1 and declined in Q2. Most chemical manufacturers (68%) reported volume of order backlogs remained "about the same" over Q2. Six months from now, 95% of chemical manufacturers expect the volume of order backlogs to be "about the same" or lower.

Raw materials inventory levels accumulated over Q2. This follows five straight quarters (all quarters the survey has been conducted) of declines. Raw material levels are expected to have declined by Q4. Similarly, more than half of chemical manufacturers (76%) reported **finished goods inventory levels** were stable over Q2. The reading for finished goods inventory levels has been positive for two straight quarters following three quarterly readings indicating manufacturers were destocking. Overall, manufacturers expect no further destocking in the coming six months. The outlook reading was flat for Q3-Q4 expectations.

A key metric for supply chain and inventory management, the **supplier delivery times** index increased to a positive reading in Q1 and was positive again in Q2. Supplier delivery times had declined over 2023, a reflection of economic weakness and easing supply chain pressures. Chemical manufacturers do not see a significant worsening or change to what they are dealing with currently. The outlook reading for supplier delivery times was 2.7, reflecting 92% of companies expecting no major change.

Chemical manufacturers' production costs increased in Q2. **Labor costs** continued to increase and 43% of companies reported gains. Following rising costs in Q1, **transportation costs** continued to build in Q2. Despite decreases in each quarter of 2023, chemical manufacturers reported an uptick **input/raw material costs** over Q1 2024 and continued gains through Q2. Looking ahead six months, chemical manufacturers anticipate facing increased production costs.

Employment levels rose in Q2 for the second quarter in a row. While 78% of companies reported levels held steady through Q2, 14% expanded employment levels and 8% reported declines. Chemical manufacturers expect to increase employment levels over the coming six months.

While most chemical manufacturers continue to indicate the **availability of skilled labor** has been "about the same" from quarter to quarter, the ESI reading has declined for the past four quarters. The ESI reading indicates companies foresee a marginal improvement in availability six months from now.

Chemical manufacturers have reported increased **capital spending** for the past four quarters (Q3, Q4, Q1, Q2). Looking ahead six months, capital spending is expected to increase.

Manufacturers continue to report an increasing **level of regulatory burden** (i.e., compliance and opportunity costs). The Q2 reading for regulatory burden was 37.8 and rises further to 51.4 based on a six month outlook.

Chemical manufacturers reported economic conditions in the U.S. improved in Q2. The ESI reading, which was negative every quarter in 2023, rose 45.6 points to a positive reading in Q1 and has remained stable through Q2. Companies continue to report the **state of economic conditions globally** has deteriorated. While expectations are for improvement in U.S. economic conditions over the second half of 2024, companies expect the global economy to deteriorate.

Following reports of deterioration over every quarter in 2023, **chemical manufacturers have reported strengthening demand from their company's major customer markets** in Q1 and Q2. The ESI reading softened to 16.2 from 35.7 for Q2 as 62% of company's report demand has been about the same. Looking ahead six months, chemical manufacturers continue to expect improving demand. **Chemical manufacturers' assessment of their own company's activity level (e.g., sales, production, output)**, which was negative every quarter in 2023, has been positive so far this year. The short-term outlook for company activity levels overall also continues to be positive.

INDICATOR	Current Assessment (Q2 2024 vs Q1 2024)			INDEX: 2023						Short-term Outlook (6 months from Q2 2024)			INDEX: 2023					
	Decreased	About the Same	Increased	Q1	Q2	Q3	Q4	2024 Q1	2024 Q2	Decrease	About the Same	Increase	Q1	Q2	Q3	Q4	2024 Q1	2024 Q2
Volume of New Orders – total orders	8%	54%	38%	10.8	2.5	4.8	-40.4	42.9	29.7	14%	46%	41%	54.1	10.0	45.0	63.8	69.0	27.0
Volume of New Orders – domestic	11%	54%	35%	8.1	-2.5	0.0	-42.6	38.1	24.3	22%	43%	35%	51.4	12.5	36.6	61.7	61.9	13.5
Volume of New Orders – foreign	19%	65%	16%	0.0	-7.7	-11.9	-27.7	21.4	-2.7	19%	41%	41%	40.5	10.0	24.4	42.6	31.7	21.6
Volume of Order Backlogs	22%	68%	11%	-25.0	-22.5	-35.7	-29.8	0.0	-10.8	22%	73%	5%	2.8	0.0	-26.8	8.5	-2.4	-16.2
Production Levels	11%	54%	35%	10.5	-12.5	-2.4	-29.8	32.6	24.3	5%	57%	38%	44.4	10.0	45.0	57.4	58.1	32.4
Capacity Utilization	11%	58%	31%	13.2	-12.5	-7.1	-25.5	34.9	19.4	5%	57%	38%	41.7	12.8	37.5	55.3	51.2	32.4
Input/Raw materials costs	11%	54%	35%	-55.3	-70.0	-36.6	-34.0	11.6	24.3	8%	70%	22%	-13.5	-22.5	7.5	-13.0	11.6	13.5
Energy costs (for Fuel & Power)	14%	65%	22%	-44.7	-30.0	9.5	-17.4	-9.3	8.1	5%	70%	24%	8.1	5.0	31.7	-6.7	20.9	18.9
Transportation costs	8%	57%	35%	-21.1	-27.5	-26.2	-17.0	9.3	27.0	8%	81%	11%	8.3	2.5	9.8	17.0	20.9	2.7
Labor costs	0%	57%	43%	71.1	42.5	28.6	30.4	53.5	43.2	0%	62%	38%	54.3	10.0	61.0	53.2	30.2	37.8
Number of Employees/Contractors	8%	78%	14%	2.6	-2.5	0.0	-27.7	14.0	5.4	11%	68%	22%	8.1	-12.5	-7.3	0.0	9.3	10.8
Availability of Skilled Labor	11%	81%	8%	0.0	0.0	-2.4	-4.3	-11.6	-2.7	8%	78%	14%	13.5	-2.5	-5.0	0.0	-4.7	5.4
Capital Spending	3%	70%	27%	-26.3	0.0	14.3	8.5	9.3	24.3	11%	41%	49%	35.1	0.0	26.8	15.2	24.4	37.8
Raw Materials inventory levels	5%	73%	22%	-7.9	-32.5	-50.0	-57.4	-16.3	16.2	11%	89%	0%	-16.2	-35.0	-9.8	17.0	0.0	-10.8
Finished Goods inventory levels	8%	76%	16%	18.4	-35.9	-35.7	-53.2	2.3	8.1	11%	78%	11%	-5.4	-32.5	-7.3	10.6	0.0	0.0
Supplier Delivery Times	8%	81%	11%	-13.2	-2.5	-9.5	-10.6	14.0	2.7	3%	92%	5%	-5.4	-5.0	-4.9	6.4	4.7	2.7
Level of Regulatory Burden (i.e., compliance & opportunity costs)	0%	62%	38%	NA	37.5	54.8	42.6	58.1	37.8	0%	49%	51%	NA	40.0	61.0	55.3	66.7	51.4

		Current Assessment (Q2 2024 vs Q1 2024)			INDEX: 2023						Short-term Outlook (6 months from Q2 2024)			INDEX: 2023					
		Deteriorated	About the Same	Improved	Q1	Q2	Q3	Q4	2024 Q1	2024 Q2	Deteriorate	About the Same	Improve	Q1	Q2	Q3	Q4	2024 Q1	2024 Q2
Economic Conditions:	What's your assessment of the state of economic conditions in the U.S.?	8%	81%	11%	-42.1	-27.5	-28.6	-17.0	28.6	2.7	24%	46%	30%	-10.8	-15.0	-14.6	29.8	38.1	5.4
	What's your assessment of the state of economic conditions globally?	22%	68%	11%	-36.8	-52.5	-45.2	-42.6	-16.7	-10.8	24%	59%	16%	0.0	-17.5	-17.1	12.8	16.7	-8.1
Company Activity Level:	What's your assessment of your company's activity level overall (e.g., sales, production, output)?	11%	57%	32%	-13.2	-20.0	-11.9	-29.8	45.2	21.6	8%	59%	32%	32.4	10.0	34.1	55.3	57.1	24.3
Customer Market Demand:	What's your assessment of demand from your company's major customer markets overall?	11%	62%	27%	-26.3	-42.5	-23.8	-36.2	35.7	16.2	11%	57%	32%	18.9	0.0	24.4	48.9	52.4	21.6

ACC conducts a voluntary online quarterly survey of over 100 diversified chemical manufacturers with operations in the United States. Data from this survey will support ACC's regulatory and legislative advocacy efforts. Aggregated findings will generate additional information about the activity and importance of the chemical industry. Chemical manufacturers consider key business indicators and how those indicators changed for their company in the current quarter (compared to the prior quarter) as well as how they expect the indicators to have changed six months from the current quarter. Categorical responses are aggregated, and a diffusion index is calculated by subtracting the percentage of respondents indicating "decreased" or "deteriorated" from the percentage indicating "increased" or "improved". Measured at a base value of 0, an index reading above 0 means that the indicator has generally increased. A reading below 0 means that the indicator has generally decreased over the reference period. Contact Emily Sanchez, Director, Economics & Data Analytics (emily_sanchez@americanchemistry.com) with questions about this survey and the survey findings.

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