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World Manufacturing Production

Statistics for Quarter II, 2011



UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

Report on world manufacturing production, Quarter II, 2011 and expected annual growth rates of MVA for 2011

UNIDO Statistics presents its first mid-year report on expected annual growth of manufacturing value added for 2011. The report presents estimates based on the observed growth of manufacturing output during the first six months of 2011 obtained from quarterly production indices. A separate report for Quarter I of 2011 is available on UNIDO's website. This report combines the production indices for Quarter II and the expected annual growth rates for the entire year of 2011. Interested users can access methodological documents on the estimation procedure of annual growth rates and a compilation of quarterly indices through the statistical web page on UNIDO's website.

Major findings

World manufacturing output grew by 5.2 per cent in the second quarter of 2011 compared to the same period in 2010. This growth rate, however, was lower than that for the first quarter of 2011 (7.5 per cent), signalling that the pace of recovery may be slowing down.¹ Beginning of the year expectations for a sustained recovery from the 2008 financial crisis were dampened by a reduction in the dynamism of global private consumption and international trade during the second quarter, fuelled by further tightening of fiscal policy concerns about sovereign risks in some European countries leading to financial market instability and rising inflation.

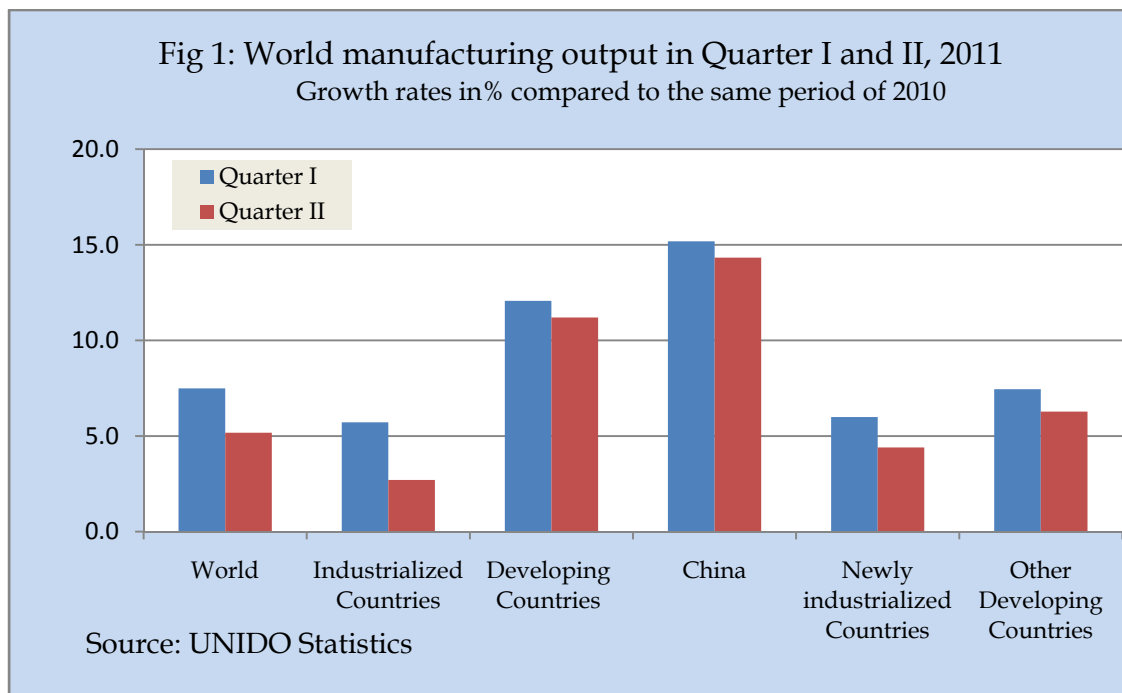
By country groups

In industrialized countries, manufacturing output rose by a mere 2.7 per cent in the second quarter compared to 5.7 per cent in the first quarter mainly because consumer spending does not seem to offset the winding down of stimulus packages, fiscal consolidation and high commodity prices of the previous quarter. Manufacturing growth markedly slowed in the United States - from 6.5 to 4.4 per cent mainly due to meagre growth in home building, low consumer durables and car purchases, rising input costs and poor employment generation that could not be compensated by a moderate pick-up in business investment.

¹ Figures for the first quarter of 2011 refer to revised estimates, they may therefore differ from those published in the earlier report.

Within the eurozone Germany's manufacturing output growth also slowed from 13.7 to 9.4 per cent compared to the same period of the previous year due to weakened business confidence and reduced export order books. The relative strength of the euro *vis a vis* the US dollar may already be taking a heavy toll on European industrial exports. Other European countries exhibited a much higher slowdown with France, the United Kingdom and Spain all recording modestly negative growth rates compared to the previous quarter on a quarter-to-quarter basis, as tax increases and fiscal consolidation curbs personal earnings and high unemployment rates continue to affect consumer confidence. The manufacturing output of Greece, which has been severely affected by financial turbulences, fell by 10.8 per cent in the second quarter of 2011.

In Asia, a marked slowdown was reported in Japan, where the natural disaster is likely to be the single strongest cause behind a decline by 6.9 per cent in the second quarter compared to the same period of the previous year. This outcome is attributed to limited electricity supply and major disruptions. On the other hand, the Republic of Korea, maintained a higher growth rate of 6.9 per cent, benefitting from its close integration within dynamic East-Asia. The world manufacturing growth in Quarter I and II by groups of developing countries are presented in Fig 1.



In stark contrast with the slow pace of industrialized countries, developing countries posted a growth rate of 11.2 per cent in the second quarter of 2011 compared to the same period of the previous year. These countries have made a significant contribution to growth of world manufacturing since the onset of the

global economic downturn, and continued to do so in both the first and second quarter of 2011. The main drivers of manufacturing output have been business investments and exports and, in some countries, increasing consumer demand.

Among developing countries China's manufacturing sector remained the fastest growing with a rate of 14.3 per cent compared to the second quarter of 2010 and a healthy 6.5% in comparison to the first quarter of 2011. Large infrastructure projects coupled with rapid housing construction, both intensive in terms of manufacturing inputs such as steel, cement and plastics, as well as investments in machinery for industrial upgrading seem to have fostered this growth. Manufacturing exports also seem to be growing, unaffected by the slowdown in economic activity in industrialized countries, and are increasingly shifting from lower to higher value added products and from low to high-tech industries, thus compensating for the appreciation of the Chinese RMB.

Other developing countries that have seen manufacturing output growth include Turkey (8.3 per cent) fuelled by a sharp increase in domestic demand. Higher growth rates of manufacturing output were also observed in Latin American countries – Argentina 8.5 per cent, Chile 7.8 per cent and Peru 5.8 per cent. However, manufacturing growth of other major developing economies such as Brazil, India and Mexico slowed in the second quarter and remained below 5 per cent. A slowdown of India's manufacturing growth seems to be related to successive increases in interest rates to combat inflation and a decline in business confidence.

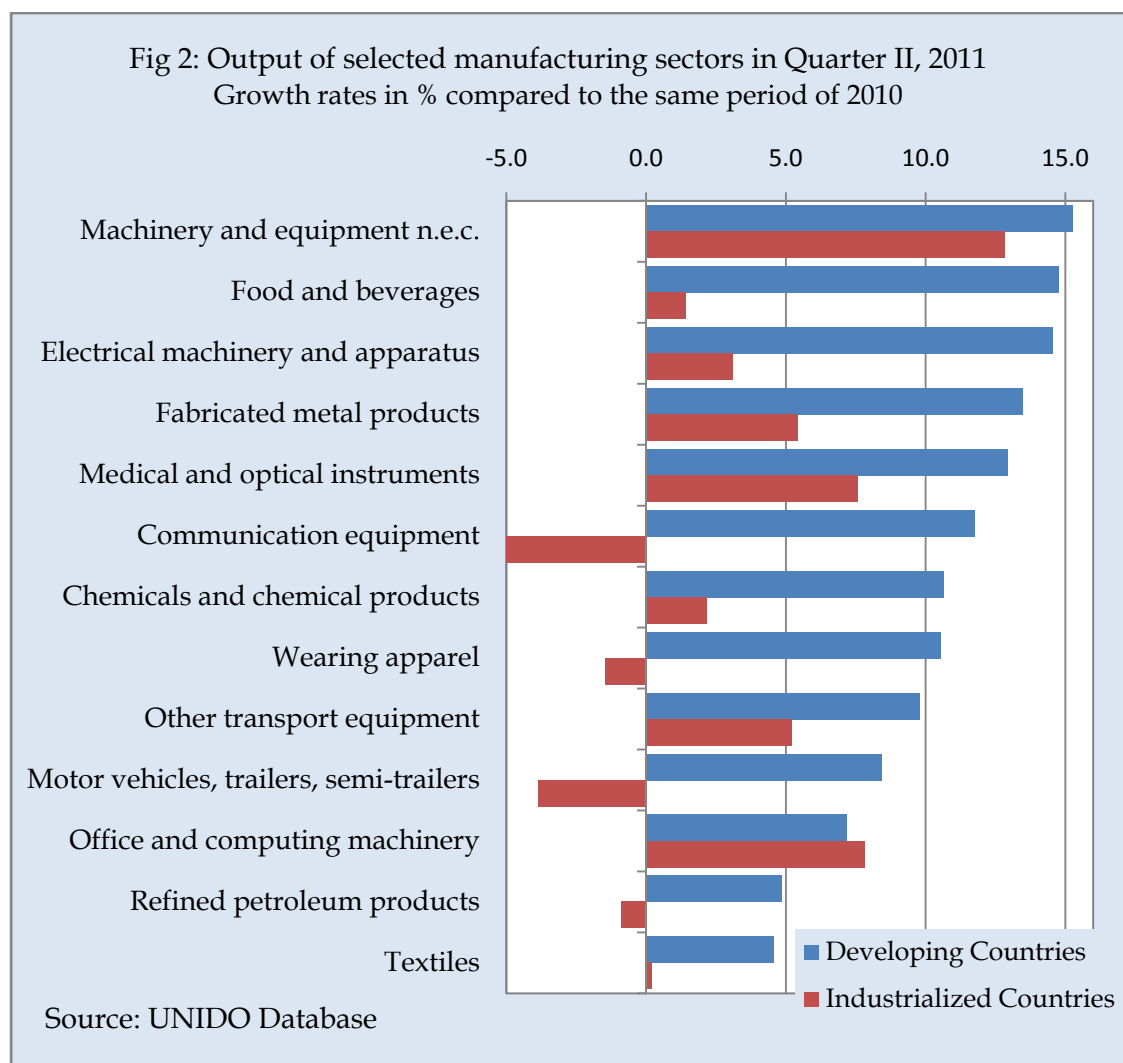
By industry groups

Greater insights into the trends in global manufacturing can be gained from a review of production indices compiled by manufacturing sectors at the 2-digit ISIC level for industrialized and developing countries (Fig 2 and Tables 3 and 4).

Comparing the second quarter of 2011 with the same quarter in the previous year, industrialized countries posted much more robust growth rates in high-technology industries (such as office and computing machinery, electrical machinery and medical optical and precision equipment) than in traditional sectors (such as food and beverages and textiles) (Fig 2 and Table 3). By contrast, a noticeable reduction has characterized industries such as production of communication equipment and motor vehicles, which fell by 5.9 and 3.9 per cent, respectively. The reduction in motor vehicle production was mainly the result of the closing down of many Japanese supplier and assembly factories following tsunami disaster. Automotive value chains operate with small inventories and just-in-time principles,

hence disruptions along any point of the chain result in severe loss of output upstream or downstream. Some decline was also observed in petroleum refineries. Production of refined petroleum products fell by 9.0 per cent in Canada, 8.4 per cent in the Netherlands, 6.6 per cent in France, and 0.4 per cent in the United States as demand for fuel weakened throughout industrialized countries.

Across all sectors, on the other hand, developing countries maintained healthy growth rates compared to industrialized countries, except in office and computing machinery (Fig 2 and Table 3). Growth rates were significantly high not only in traditional low-technology and resource-based sectors, such as food and beverages, textiles, wearing apparel and petroleum products, but also in such high-tech manufacturing sectors as production of electrical machinery, communication equipment and motor vehicles and other transport equipment. Unlike industrialized countries, especially in major developing countries such as China or Turkey, consumer demand seems to have kept up the momentum.



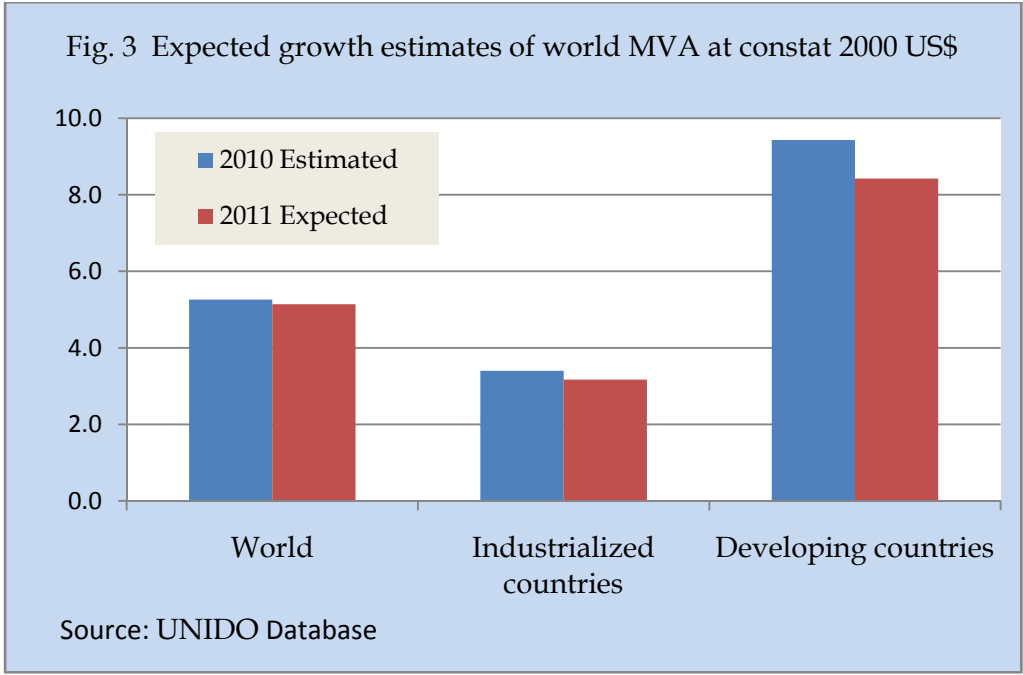
Comparing growth rates in manufacturing output in the second quarter with the first quarter of 2011, the stagnation of the manufacturing industry in industrialized countries is observable, with ten industries showing negative growth (Table 4). Output in industries such as chemical, paper and mineral products, which produce inputs for other manufacturing sectors, have fallen drastically. Interestingly, such slowdown was more marked than for capital goods (such as electrical and precision machinery, equipment), though not as extreme as in the case of consumer goods, which in industrialized countries continued to display very limited dynamism. While some of these effects may be attributable to seasonal variations or to one-off factors, the above evidence casts some doubts on the sustainability of the recovery process in industrialized countries, as pent-up demand for investment will gradually diminish in the absence of equally sustained consumer demand.

The performance of developing countries' manufacturing sectors in the second quarter *vis a vis* the first quarter has also been much better than that of industrialized countries (Table 4). Industries such as printing and publishing, electrical machinery and apparatus and radio, TV and communication equipment and medical, precision and optical instruments have been above or hovering around the 10% growth rate, signalling that some developing countries are able to sustain their high-tech industries independently from trends in industrialized economies. A noticeable change for developing countries has been, however, the negative growth in the production of wearing apparel, wood products and motor vehicles.

Expected growth of MVA in 2011

Based on overall economic growth rates and observations made through quarterly production reports, UNIDO has estimated the expected growth rates for world manufacturing value added for 2011, which show that world MVA is expected to rise by 5.1 per cent in 2011.² This evidence remains compatible with a return to the output levels that characterized the global economy before the 2008-2009 financial downturn. However, the expected growth rates for 2011 for industrialized as well as developing countries are slower than those of 2010 as depicted in Fig. 3.

²IMF estimates of GDP growth rates were taken into account in MVA nowcasts for 2011.



During the years of the financial crisis and recovery period, developing countries significantly contributed to overall world industrial growth. The consequences of the expected slowdown, especially in major developing and newly industrialized economies, could be significant, as they are likely to eventually result in a slower rate of growth of domestic demand, with further negative implications for the production of both consumer and capital goods. As the growth of manufacturing output in industrialized countries fails to recover in the wake of fiscal consolidation and turbulences in the sovereign debt markets, developing economies as a whole do not yet seem able to delink and, hence, to maintain their driving role behind the growth of world MVA .

Statistical tables

Table 1:

Estimates of annual MVA growth by groups, at constant 2000 US\$
(in per cent to previous year)

	Estimates for 2010	Expected for 2011
World	5.3	5.1
Industrialized countries	3.4	3.1
North America	3.4	3.2
East Asia	5.5	5.0
Europe	1.9	1.0
Developing countries	9.4	8.4
China	12.2	11.0
Newly industrialized countries	7.8	7.3
Other Developing countries ³	4.4	2.6

Table 2:

Estimated growth rates of world manufacturing output
Quarter II, 2011

	Share in world MVA ⁴ (2010)	In per cent compared to:	
		previous quarter	same period of the previous year
World	100.0	1.3	5.2
Industrialized Countries	67.9	0.0	2.7
North America	24.8	0.1	4.1
Europe	23.5	0.8	5.2
East Asia	18.1	-1.5	-3.7
Developing Countries	32.1	4.0	11.2
China	15.4	6.5	14.3
Newly industrialized countries	12.8	-0.7	4.4
Other developing countries	3.5	0.4	6.3

³Including least developed countries.

⁴For detail MVA distribution worldwide, see UNIDO publication *International Yearbook of Industrial Statistics*, 2011.

Table 3: Estimated growth rates of output by manufacturing sector
Quarter II, 2011
(in % compared to the same period of the previous year)

	Developing Countries	Industrialized Countries	World
Food and beverages	14.5	1.5	5.4
Tobacco products	13.2	-3.0	9.3
Textiles	4.8	0.0	3.1
Wearing apparel, fur	10.6	-1.6	5.4
Leather, leather products and footwear	10.6	6.7	9.1
Wood products (excl. furniture)	0.0	0.7	0.3
Paper and paper products	12.6	-1.9	2.0
Printing and publishing	14.9	-1.8	0.2
Coke, refined petroleum products	4.9	-0.9	1.7
Chemicals and chemical products	10.5	1.9	3.8
Rubber and plastics products	9.9	3.1	5.3
Non-metallic mineral products	14.0	1.7	6.8
Basic metals	10.9	0.9	6.3
Fabricated metal products	14.2	5.4	7.1
Machinery and equipment n.e.c.	15.7	12.8	13.7
Office, accounting and computing machinery	7.2	7.8	7.8
Electrical machinery and apparatus	14.5	2.8	8.0
Radio, TV and communication equipment	11.8	-5.9	2.4
Medical, precision and optical instruments	13.1	7.5	8.0
Motor vehicles, trailers, semi-trailers	9.6	-3.9	-1.5
Other transport equipment	9.8	4.9	7.5
Furniture; manufacturing n.e.c.	8.7	2.2	4.7
Total Manufacturing	11.2	2.7	5.2

Table 4: Estimated growth rates of output by manufacturing sector
Quarter II, 2011
(in per cent compared to Quarter I of 2011)

	Developing Countries	Industrialized Countries	World
Food and beverages	0.4	0.6	0.5
Tobacco products	14.8	-0.1	11.7
Textiles	1.6	-1.1	0.7
Wearing apparel, fur	-1.3	3.1	0.2
Leather, leather products and footwear	5.0	3.7	4.6
Wood products (excl. furniture)	-4.3	-0.1	-1.3
Paper and paper products	3.0	-1.5	-0.2
Printing and publishing	11.3	0.0	1.4
Coke, refined petroleum products	0.8	-0.8	0.0
Chemicals and chemical products	4.7	-0.3	1.1
Rubber and plastics products	2.0	-1.0	0.0
Non-metallic mineral products	3.0	-1.1	0.8
Basic metals	4.1	-3.4	0.8
Fabricated metal products	4.9	0.6	1.5
Machinery and equipment n.e.c.	1.7	2.4	2.1
Office, accounting and computing machinery	7.1	-0.1	0.5
Electrical machinery and apparatus	9.6	0.6	4.7
Radio, TV and communication equipment	9.7	-7.6	0.6
Medical, precision and optical instruments	8.5	2.0	2.6
Motor vehicles, trailers, semi-trailers	-1.5	-6.2	-5.3
Other transport equipment	3.5	1.3	2.5
Furniture; manufacturing n.e.c.	3.8	0.1	1.7
Total Manufacturing	4.0	0.0	1.3

Table 5:
 Estimated growth rates of world manufacturing output
 Quarter I, 2011 (Revised)

	Share in world MVA ⁵ (2010)	In per cent compared to:	
		previous quarter	same period of the previous year
World	100.0	3.7	7.5
Industrialized Countries	67.9	1.0	5.7
North America	24.8	1.9	6.3
Europe	23.5	1.5	8.0
East Asia	18.1	-1.9	1.0
Developing Countries	32.1	10.3	12.1
China	15.4	15.3	15.2
Newly industrialized countries	12.8	1.6	6.0
Other developing countries	3.5	1.6	7.5

⁵ For detail MVA distribution worldwide, see UNIDO publication *International Yearbook of Industrial Statistics*, 2011.