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World Manufacturing Production

Statistics for Quarter II, 2014

Statistics Unit

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UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

Report on world manufacturing production, Quarter II, 2014 and expected growth rate of MVA in 2014

UNIDO Statistics presents this report¹ on growth estimates based on the indices of industrial production for the second quarter of 2014. The report also contains the expected annual growth estimates of manufacturing value added in 2014. Reports on earlier quarters are available on UNIDO's website. Users are advised to take note that MVA refers to output net of intermediate consumption, whereas quarterly indices are based on gross output. Interested users can access methodological documents on the estimation procedure of annual growth rates and a compilation of quarterly indices on the statistical web pages of UNIDO's website.

UNIDO's quarterly reports on world manufacturing have been regularly published since the first quarter of 2011. However, earlier reports included index figures for some countries that were not seasonally adjusted or for which no information was available where seasonal adjustment was made at the national level. Since 2013, growth figures have been published based on seasonally adjusted index numbers. The seasonal adjustment of index numbers is achieved using the TRAMO/SEATS method² in Demetra+ software. The purpose of seasonal adjustment is to filter out any fluctuations or calendar effects within the time series' shifts.

The country groups are an essential part of the compilation and presentation of the quarterly growth figures. New country groups have been applied in all UNIDO statistical publications since 2013. Details on the country groups are provided in the 2013 edition of the *International Yearbook of Industrial Statistics*. The new country grouping is based on economic territories rather than on political boundaries. It comprises country groups by stage of industrialization, geographic region and income category. This report presents the growth figures for country groups by stage of industrial development and by geographic region.

¹ UNIDO gratefully acknowledges the substantial input provided by the Economica Institute of Economic Research based in Vienna to this report.

² TRAMO stands for *Time series Regression with ARIMA noise, Missing values and Outliers*, and SEATS for *Signal Extraction in ARIMA Time Series*. ARIMA is the abbreviation of *Autoregressive Integrated Moving Average*, a widely applied statistical method for time series analysis.

Major findings

1. Prospects of MVA growth rate in 2014

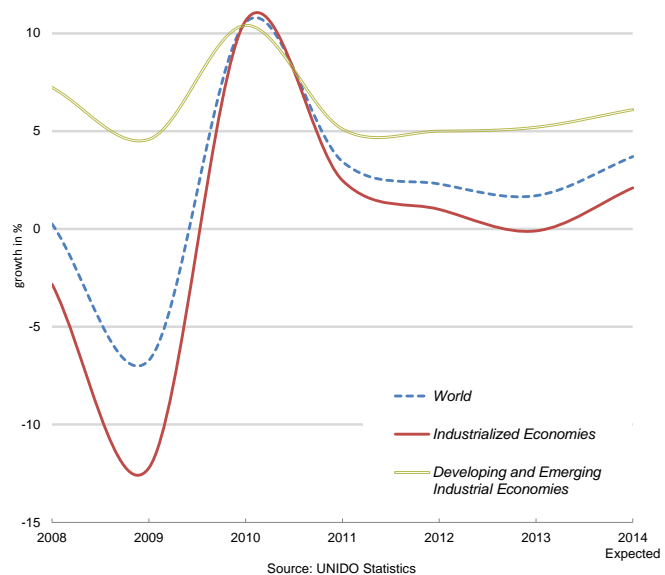
The recovery of world manufacturing production faced the risk of yet another downturn arising mainly from geopolitical tensions and reciprocal economic sanctions in Europe. Global manufacturing value added (MVA) is expected to rise by 3.7 percent in 2014, which is higher than in 2013 but lower than earlier projections for the year. The prospect of recovery looked promising at the end of 2013 and in the first quarter of 2014. However, escalating geopolitical tensions have disrupted smooth growth and may push the global economy into another recession.

The current impasse occurs at a time when Europe's economy just started recovering from an earlier recession. Obviously, the price of reciprocal sanctions will primarily be borne by European economies. According to UNIDO estimates, Europe's MVA growth rate in 2014 is expected to be 1.0 percent. Germany's MVA growth rate is expected to be 1.5 percent, whereas the MVA growth rate of Italy, France and the Russian Federation is expected to be less than

1.0 percent. The industrialized economies of North America and East Asia are likely to be less affected, and their MVA growth rate in 2014 is expected to be 3.0 percent and 2.7 percent, respectively. The overall MVA annual growth rate of industrialized economies in 2014 is estimated at 2.1 percent.

The impasse the recovery of industrialized economies is facing is likely to adversely affect the manufacturing growth of developing and industrial economies. The first signs of its impact are more visible in the quarterly figures presented later in this report. In annual terms, the MVA growth rate of developing and emerging industrial economies is expected to grow by 6.1 percent. China will make a major contribution to this growth, as its MVA is likely to rise at a rate of 7.5 percent. However, its MVA growth rate could also decrease in 2014. Recessions in industrialized

Figure 1: Estimated annual growth rates of world MVA by years, at constant prices of 2005

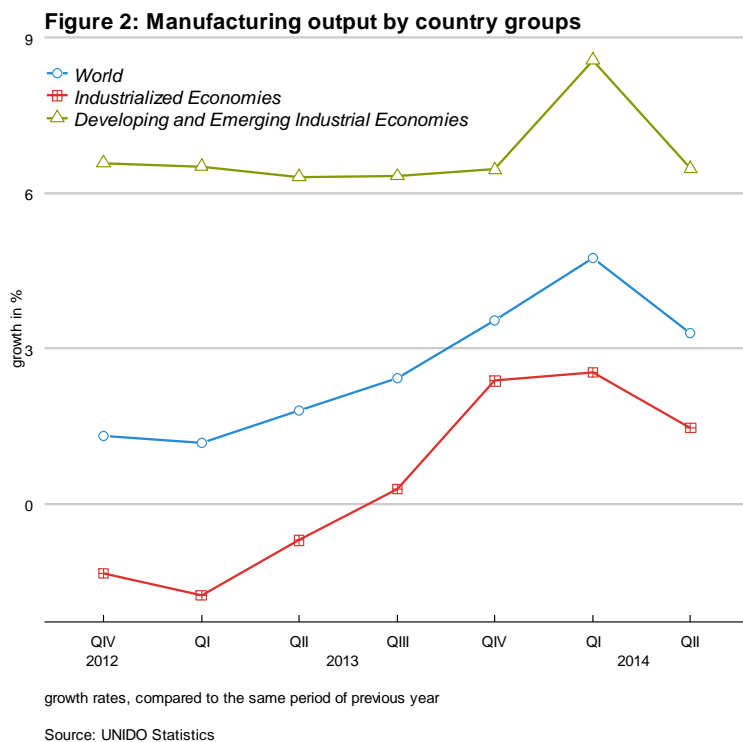


countries in the past have resulted in a sustained deceleration of industrial production in developing and emerging industrial economies. The overall industrial growth rate has systematically decreased or remained constant in these economies for the last three consecutive years. The MVA growth rate of emerging industrial economies (excluding China) is expected to grow by merely 1.5 percent in 2014.

In general, the current slowdown in European industrialized countries has severely damaged the recovery process. There has been a considerable withdrawal of capital from areas affected by sanctions and a resulting drop in commodity exchange. Expected energy supply shortages in the upcoming winter period may further increase the economies' vulnerability and destabilize production. This scenario paints a gloomy picture of industrial growth in the next few months, unless a political solution is promptly found in Europe and normal economic relations are re-established.

2. World manufacturing growth in the second quarter of 2014

Since the beginning of 2013 till the first quarter of 2014, world manufacturing output was characterized by positive growth dynamics. This trend was reversed in the second quarter of this year when the growth rate dropped to 3.3 percent from 4.8 percent (revised estimate) for the first quarter of 2014 (see Figure 2). Although the year-by-year growth rate has remained moderate, the expansionary momentum of the quarter-to-quarter growth has dissipated.



The reduced dynamic in the second quarter of 2014 was observed across the world regions from East Asia to Latin America. The slowdown occurred both in industrialized economies as well as in developing and emerging industrial economies,

but Europe is playing a decisive role in the current slowdown for various reasons. First, the improvement in the growth of manufacturing output observed at the end of 2013 and beginning of 2014 had not yet gained sufficient strength for full recovery. Second, the year 2014 started with the swelling up of conflicts in the direct proximity of Europe – North Africa, the Middle East and recently in Ukraine. Emerging geopolitical uncertainties eroded investors' as well as consumers' confidence. This triggered a capital outflow and a decline in bond and equity prices³ with negative repercussions on manufacturing production.

The hesitancy of recovery in some industrialized economies weakens the demand for consumer goods, implying adverse effects on production in emerging industrial economies in Asia and Latin America. The currency depreciation in a number of major economies of Latin America has caused a loss of investor confidence. These factors combined with weaker domestic demand and decreasing inward investment from the United States, which traditionally plays an important role, had a negative impact on overall activity in general and on manufacturing activity in particular.

The price decline for major commodities during the second quarter of 2014⁴ resulted in losses for exporters.⁵ In sum, more cautious prospects in general, a loss of confidence in the economic policymaking capacity in several parts of the world and various geopolitical uncertainties weighed heavily on the growth dynamics in world manufacturing production in the second quarter.

Findings by country groups

Industrialized economies

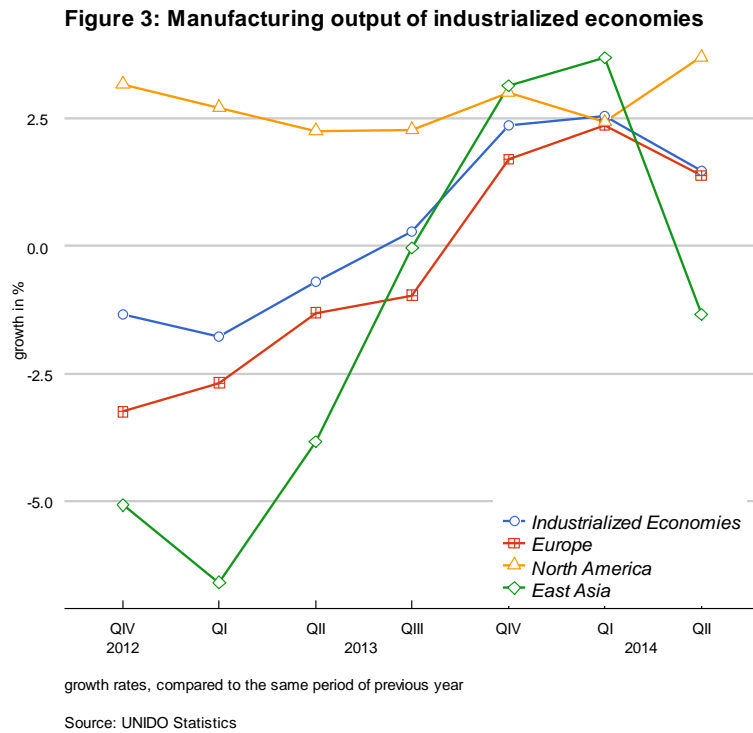
Following a short-lived recovery, the growth rate of manufacturing output in industrialized economies declined from 2.5 percent in the first quarter to 1.5 percent in the second quarter of 2014 on a year-by-year basis (see Figure 3). Several manufacturing industries encountered declines in production including in the production of chemicals, metal products, communication equipment and motor vehicles and trailers.

³ OECD (2014): OECD Economic Outlook, Vol. 2014/1.

⁴ IMF (2014): Commodity Market Monthly, August 2014.

⁵ World Bank (2014): Global Economic Prospects – Shifting priorities, building for the future.

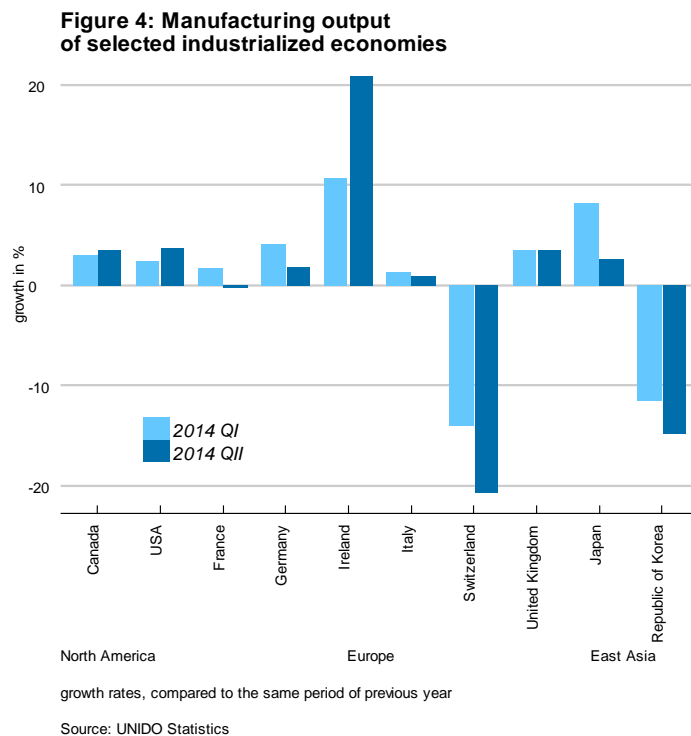
In North America, the growth rate of manufacturing output remained moderate in the second quarter of 2014 at 3.7 percent. Compared to the other industrialized economies, the economies of North America expanded their manufacturing growth by more than 2 percentage points above average. This development was mainly driven by the United States and Canada. In both economies, the growth rate of manufacturing output increased to 3.7 percent and 3.5 percent, respectively. The ongoing reindustrialization and renaissance of industry, especially in the United States, is reflected in positive growth dynamics. In general, the recovery in the U.S. and Canada occurred much faster as compared to other industrialized economies.



The positive trend of manufacturing growth reversed in Europe with a lower growth of 1.4 percent in the first quarter of 2014. Production growth dropped in a number of major European economies. In France, manufacturing output fell by 0.3 percent, while in Germany and Italy it grew at merely 1.8 percent and 0.9 percent, respectively. Germany, with a relatively high export quota, suffered strongly from the generally weak economic development of its foreign markets. In France, the decline of manufacturing can, to a large extent, be attributed to the refinery of petroleum products as well as to high-tech products such as consumer electronics and electrical machinery. The increase of value added tax at the beginning of 2014 had negative effects on consumer demand and hence on the general economic activity.⁶ The recovery in the euro zone was hampered as a result of cautious prospects combined with the lack of structural reforms and increasing unit labour costs in some economies.

⁶ World Bank (2014): Global Economic Prospects – Shifting priorities, building for the future.

The United Kingdom has largely remained unaffected by the current slow-down and maintained its moderate manufacturing output growth rate at 3.6 percent in the second quarter of 2014 compared to the same quarter of the previous year. The recent figures from Ireland are also noteworthy, where positive MVA growth rates were recorded for the previous four quarters. Following the high growth rate in the first quarter of 2014 at 10.7 percent, the positive trend continued. This was substantially influenced by a rapid increase in growth of the chemicals and non-metallic minerals products.



Switzerland's manufacturing growth rate declined for a sixth consecutive quarter. Since the first quarter of 2014, the country's growth rates have been negative, and in the second quarter of 2014, manufacturing output fell by 20.7 percent. This drastic drop can be explained by the continuous decline of exports due to the strong Swiss franc against the major world currencies, which is severely damaging the competitiveness of Switzerland's manufactured products. Low inflation rates and the sluggish recovery in the economies of the European Union,⁷ which are major markets for Swiss manufactured products, also contributed to this trend.

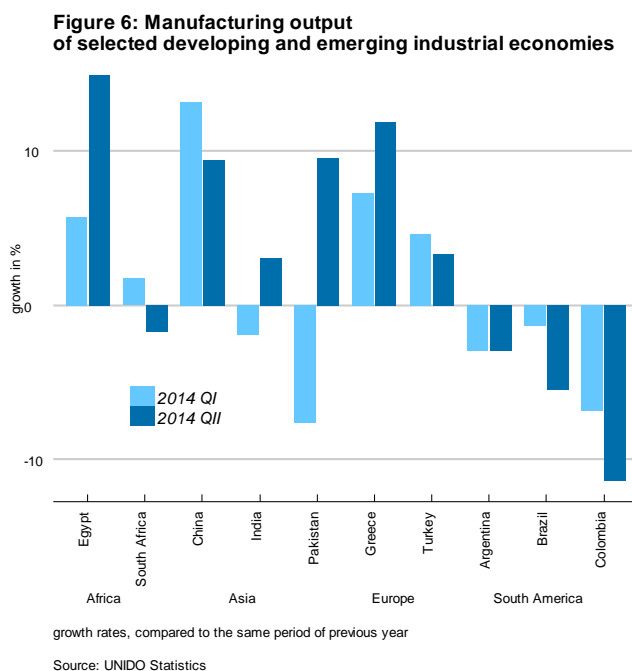
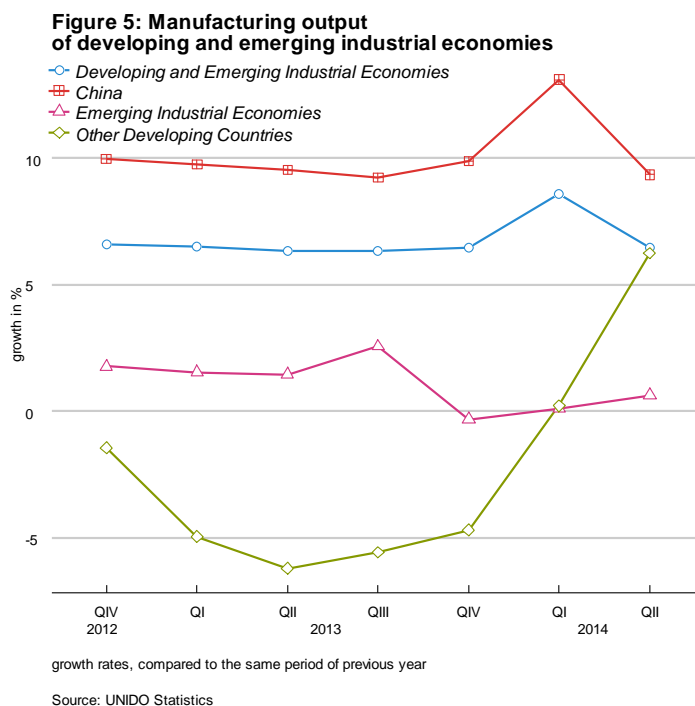
A negative growth trend is also evident in East Asia. From the first to the second quarter of 2014, manufacturing output declined by 5 percentage points to an actual growth rate of -1.3 percent. The fall in the growth rate has been significantly influenced by recent developments in the Republic of Korea and Japan. The Republic of Korea has recorded a negative growth rate of manufacturing output since the third quarter of 2012. The growth rate of manufacturing output in Japan slowed down from 8.2 percent in the first quarter of 2014 to 2.6 percent in the second quar-

⁷ OECD (2014): OECD Economic Outlook, Vol. 2014/1.

ter. The high growth rate in the first quarter was attributable to front-loading consumption due to tax reforms in the fiscal consolidation process.

Developing and emerging industrial economies

The manufacturing sector of developing and emerging industrial economies did not remain unaffected from the slowdown in industrialized countries. The growth rate of manufacturing output of these economies dropped from 8.6 percent in the first quarter of 2014 to 6.5 percent in the second quarter on a year-by-year basis. On a quarter-to-quarter basis, the manufacturing growth rate of developing and emerging industrial economies decreased by more than 2 percentage points. The slowdown was mainly driven by the decline in China's growth dynamics, where the growth rate of manufacturing output dropped to 9.3 percent in the second quarter of 2014 from 13.1 percent in the first quarter. The manufacturing output in emerging industrial economies (excluding China) remained low in the second quarter of 2014 at a rate of 0.6 percent. The initially positive prospects at the beginning of 2014, which influenced production in developing and emerging economies, could not be sustained in the wake of another



slowdown in industrialized economies.

The growth rate of manufacturing output in the Asia and Pacific region was moderate with a rate of 7.9 percent in the second quarter of 2014. This reflects a decrease in the growth dynamics following a high growth rate of above 10 percent in the first quarter of 2014. The negative trend has prevailed on a broad scale, with 15 out of 22 manufacturing industries performing weaker than before. India, for instance, showed a moderate growth rate of 3.0 percent in the second quarter following two quarters of a declining economy dominated by high inflationary pressure and rising fiscal and current account deficits. In Latin America, the negative trend continued in the second quarter. While manufacturing output fell by 0.6 percent in the first quarter of 2014, the region recorded a low but intensifying decrease of 1.9 percent in the second quarter. Drivers for this development can be explained by low demand for the region's exporting goods. Manufacturing output fell by 3.0 percent in Argentina, by 5.4 percent in Brazil and by 1.0 percent in Chile.

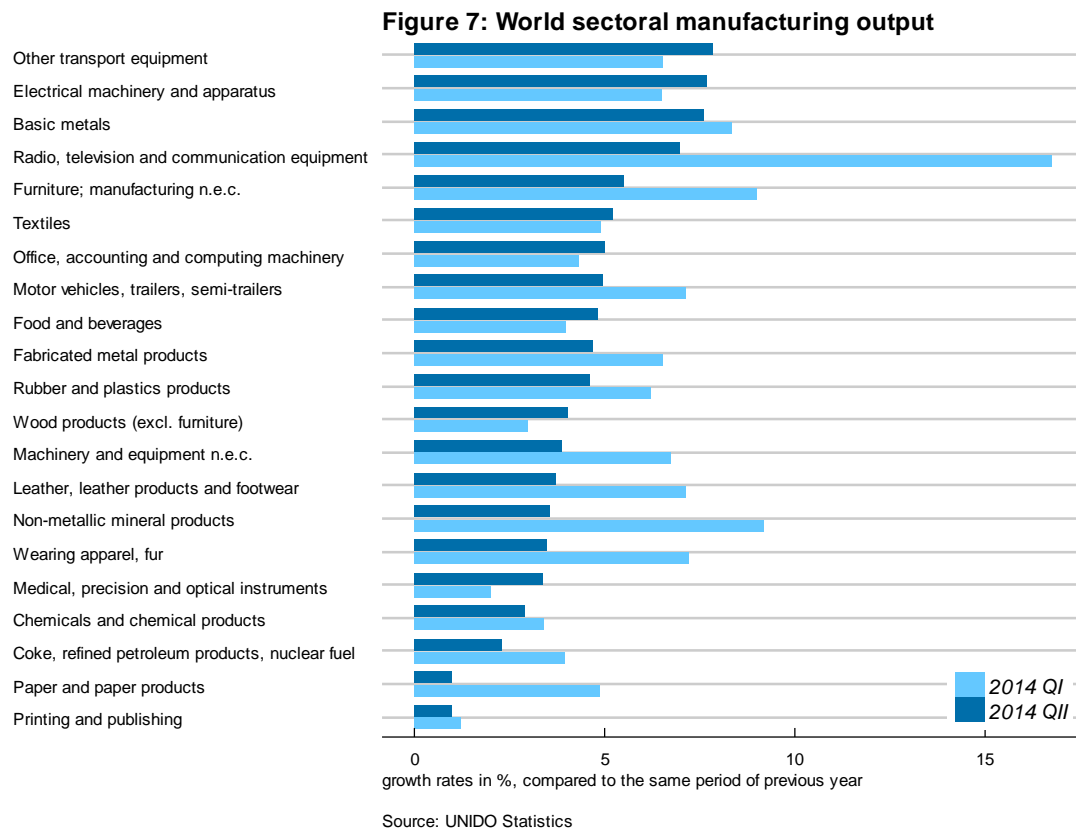
Africa's manufacturing production in 2014 was stable. Following a low growth of 2.1 percent in the first quarter of 2014, the dynamic intensified, resulting in a growth rate of 2.7 percent in the second quarter. Stabilizing energy costs, decreasing food prices and decelerating inflation created a solid environment for this development.⁸ Due to political instabilities, Egypt has witnessed a prolonged period of negative manufacturing growth rates. Since the first quarter of 2014, however, the manufacturing output has recovered and there has been a return to a positive growth rate. After 5.7 percent in the first quarter of 2014, Egypt's manufacturing output grew by 14.9 percent in the second quarter, whereas South Africa's growth rate decreased by 1.8 percent in the second quarter of 2014.

Findings by industry groups

The trend of positive growth rates in all industry groups in developing and emerging industrial economies persisted during the second quarter of 2014, although a slowdown in growth dynamics was observable. The growth of manufacturing output turned negative in 15 out of 22 industries. Negative growth rates of manufacturing output in industrialized economies have been recorded for tobacco (-1.9 percent), paper (-0.3 percent), printing and publishing (-1.3 percent) and coke and petroleum (-0.4 percent) products. An ongoing positive trend could only be observed in six in-

⁸ AfDB, OECD, UNDP (2014): African Economic Outlook 2014: Global Value Chains and Africa's Industrialisation.

dustries. The detailed development of worldwide manufacturing production growth rates for all industry groups on a year-by-year basis is presented in Figure 7.



The generally uncertain economic and labour market prospects, particularly in the industrialized economies in Europe, reduce the demand for classical consumer goods like electronic devices. The growth rate of the production of radio, television and communication equipment fell from a high rate of 16.8 percent in the first quarter of 2014 to a more moderate level of 7.0 percent in the second quarter. Again, this trend can be traced back to drops in manufacturing output in Asia, where the production of television equipment in particular plays a significant role in manufacturing. In Asia, growth declined from 20.6 percent in the first quarter of 2014 to 7.5 percent in the second quarter compared to the same period of 2013. The rate of decline by 17.6 percent in Africa is also remarkable, but might be of a short-term nature, as a large international television producer is planning to open new production facilities in South Africa. The optimistic growth perspectives in the manufacturing of motor vehicles also softened in the second quarter. The growth of world output in that group dropped from 7.1 percent to 5.0 percent in the current quarter.

In the manufacturing of non-metallic mineral products, growth declined from 9.2 percent in the first quarter of 2014 to 3.6 percent in the second quarter. This development was largely driven by a reduction in Chinese output growth. However,

downward movements were also observed in some industrialized European economies such as France, Germany, Norway and Portugal. Further notable reductions in growth occurred in some emerging industrial economies.

Despite the slowdown in overall growth, the performance of some industries (mainly high-tech industries) has significantly improved. Among these are the production of medical and optical instruments, transport equipment, electrical machinery and wood products. The production of medical and optical instruments increased from 2.0 percent to 3.4 percent. This trend was mainly driven by industrialized economies, where output of this industry group essentially consists of high-tech goods. The production of medical and optical instruments in Japan rose by nearly 10.0 percent in the second quarter of 2014. The positive growth trend in the manufacturing of transport equipment continued in the second quarter of 2014. The worldwide growth of the production of other transport equipment reached 7.9 percent in the second quarter of 2014 compared to the same period of the previous year. Here, industrialized economies registered high growth rates, whereas China's industry in Asia further increased production by 14.0 percent. Another high growth industry was electrical machinery, where manufacturing output grew by 7.7 percent in the second quarter of 2014.

In sum, growth continued in most of the industry groups throughout the second quarter, but at a decelerating pace. Developing and emerging industrialized economies were characterized by ongoing positive growth rates in most manufacturing industries. In industrialized economies, a slowdown of growth dynamics in the majority of industry groups was observed. Further details for each industry and country group as well as revised data for the first quarter of 2014 are provided in the annexed tables.

Annex

Table 1:

Estimated growth rates of world manufacturing output in %

Quarter II, 2014

	Share in world MVA (2010)	Compared to the previous quarter	Compared to the same period of the previous year
World	100	-0.5	3.3
Industrialized Economies	67.7	0.0	1.5
North America	22.4	1.6	3.7
Europe	24.7	0.2	1.4
East Asia	17.2	-2.5	-1.4
Developing and EIE (by development group)	32.3	-1.2	6.5
China	15.3	-2.2	9.3
Emerging Industrial Economies	13.8	0.7	0.6
Least Developed Countries	0.5	-1.6	0.1
Other Developing Economies	2.7	2.8	6.2
Developing and EIE (by region)	32.3	-1.2	6.5
Africa	1.5	1.2	2.7
Asia & Pacific	21.7	-1.6	7.9
Latin America	5.8	-0.4	-1.9
Others	3.3	1.8	5.5

Source: UNIDO Statistics.

Notes: Not all subgroups in this group are presented; seasonally adjusted data.

Table 2:**Estimated growth rates of output by manufacturing sector**

In % compared to the same period of the previous year

Quarter II, 2014.

	Developing and Emerging Industrial Economies	Industrialized Economies	World
Food and beverages	6.1	3.7	4.8
Tobacco products	10.5	-1.9	8.9
Textiles	6.4	2.3	5.2
Wearing apparel, fur	4.0	2.0	3.5
Leather, leather products and footwear	3.5	4.0	3.7
Wood products (excl. furniture)	8.0	2.3	4.1
Paper and paper products	3.5	-0.3	1.0
Printing and publishing	12.9	-1.3	1.0
Coke, refined petroleum products, nuclear fuel	4.5	-0.4	2.3
Chemicals and chemical products	7.2	0.5	2.9
Rubber and plastics products	5.5	4.2	4.6
Non-metallic mineral products	3.2	3.9	3.6
Basic metals	9.9	3.6	7.6
Fabricated metal products	9.1	3.2	4.7
Machinery and equipment n.e.c.	4.9	3.3	3.9
Office, accounting and computing machinery	9.6	4.6	5.0
Electrical machinery and apparatus	11.7	2.7	7.7
Radio, television and communication equipment	7.2	1.1	7.0
Medical, precision and optical instruments	11.2	1.7	3.4
Motor vehicles, trailers, semi-trailers	1.3	5.9	5.0
Other transport equipment	12.9	1.8	7.9
Furniture; manufacturing n.e.c.	7.7	3.3	5.5
Total Manufacturing	6.5	1.5	3.3

Source: UNIDO Statistics.

Note: Seasonally adjusted data.

Table 3:**Estimated growth rates of output by manufacturing sector**

In % compared to the previous quarter

Quarter II, 2014

	Developing and Emerging Industrial Economies	Industrialized Economies	World
Food and beverages	1.1	0.8	0.9
Tobacco products	-2.5	-2.0	-2.5
Textiles	-1.5	-0.4	-1.2
Wearing apparel, fur	-6.6	-0.8	-5.1
Leather, leather products and footwear	-7.8	2.8	-4.7
Wood products (excl. furniture)	0.3	0.2	0.2
Paper and paper products	-8.0	-0.7	-3.4
Printing and publishing	3.3	-1.6	-0.8
Coke, refined petroleum products, nuclear fuel	-1.6	-0.4	-1.1
Chemicals and chemical products	4.9	-1.2	1.0
Rubber and plastics products	-1.7	-0.7	-1.1
Non-metallic mineral products	-8.3	-0.6	-4.7
Basic metals	-0.5	-1.2	-0.8
Fabricated metal products	-10.2	-0.6	-3.3
Machinery and equipment n.e.c.	-3.8	-1.5	-2.4
Office, accounting and computing machinery	0.0	2.1	2.0
Electrical machinery and apparatus	5.2	-0.6	2.6
Radio, television and communication equipment	-1.7	-3.8	-2.4
Medical, precision and optical instruments	0.7	1.9	1.7
Motor vehicles, trailers, semi-trailers	2.0	0.0	0.4
Other transport equipment	-1.5	0.6	-0.6
Furniture; manufacturing n.e.c.	-6.5	-0.5	-3.7
Total Manufacturing	-1.2	0.0	-0.5

Source: UNIDO Statistics.

Note: Seasonally adjusted data.

Table 4:**Estimated growth rates of world manufacturing output in %**

Quarter I, 2014 (revised)

	Share in world MVA (2010)	Compared to the previous quarter	Compared to the same period of the previous year
World	100	4.5	4.8
Industrialized Economies	67.7	0.0	2.5
North America	22.4	0.5	2.4
Europe	24.7	0.2	2.4
East Asia	17.2	-1.3	3.7
Developing and EIE (by development group)	32.3	11.9	8.6
China	15.3	19.1	13.1
Emerging Industrial Economies	13.8	0.7	0.1
Least Developed Countries	0.5	1.0	2.8
Other Developing Economies	2.7	1.0	0.2
Developing and EIE (by region)	32.3	11.9	8.6
Africa	1.5	0.3	2.1
Asia & Pacific	21.7	14.6	10.3
Latin America	5.8	-0.6	-0.6
Others	3.3	1.4	6.5

Source: UNIDO Statistics.

Note: Not all subgroups in this group are presented; seasonally adjusted data.

Table 5:**Estimated growth rates of output by manufacturing sector**

In % compared to the same period of the previous year

Quarter I, 2014 (revised)

	Developing and Emerging Industrial Economies	Industrialized Economies	World
Food and beverages	6.3	2.1	4.0
Tobacco products	22.0	-2.3	18.7
Textiles	5.7	2.8	4.9
Wearing apparel, fur	9.5	1.2	7.2
Leather, leather products and footwear	10.8	-0.8	7.1
Wood products (excl. furniture)	3.9	2.6	3.0
Paper and paper products	13.1	0.6	4.9
Printing and publishing	9.6	-0.3	1.2
Coke, refined petroleum products, nuclear fuel	6.5	0.9	4.0
Chemicals and chemical products	4.0	3.1	3.4
Rubber and plastics products	7.5	5.5	6.2
Non-metallic mineral products	11.8	6.3	9.2
Basic metals	11.0	3.7	8.3
Fabricated metal products	12.6	4.3	6.5
Machinery and equipment n.e.c.	9.8	5.0	6.8
Office, accounting and computing machinery	11.4	3.7	4.3
Electrical machinery and apparatus	9.5	2.9	6.5
Radio, television and communication equipment	18.5	7.9	16.8
Medical, precision and optical instruments	15.4	-0.6	2.0
Motor vehicles, trailers, semi-trailers	1.0	8.7	7.1
Other transport equipment	9.7	2.4	6.5
Furniture; manufacturing n.e.c.	13.9	4.0	9.0
Total Manufacturing	8.6	2.5	4.8

Source: UNIDO Statistics.

Note: Seasonally adjusted data.