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World Manufacturing Production

Statistics for Quarter 2, 2012



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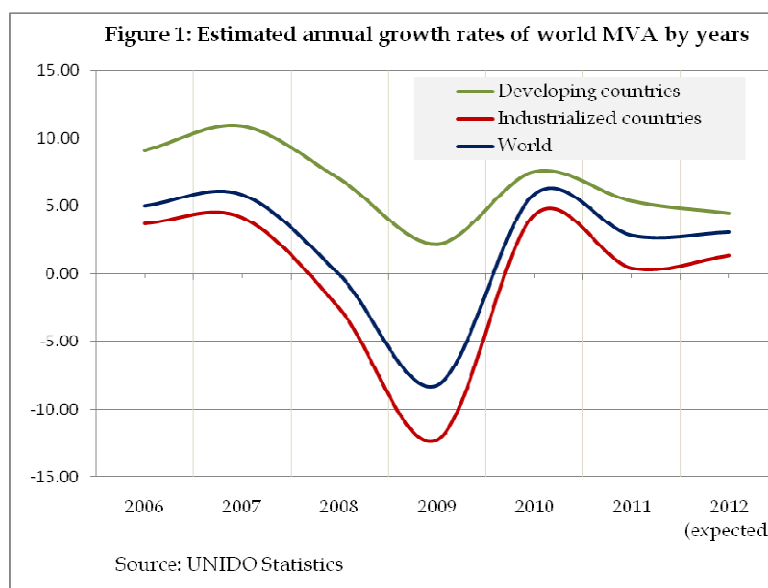
Report on world manufacturing production, Quarter II, 2012 and expected growth of MVA in 2012

UNIDO Statistics presents this report on expected annual growth of manufacturing value added based on observations of quarterly production indices for the first six months of 2012 and forecasts for the remaining months. Reports on earlier quarters are available on UNIDO's website. The report also contains the growth estimates based on the indices of industrial production for the second quarter of 2012. 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.

Major findings

1. MVA growth prospects in 2012

World manufacturing growth is expected to remain low for the remainder of the year 2012 due to the uncertainty in the European financial market and the unfavourable external environment for developing countries. According to UNIDO estimates, world MVA is expected to grow at 3.1 percent in 2012. Annual growth estimates of recent years indicate that the manufacturing industry has been affected by the ongoing second recession of the world economy since 2010. While the first recession hit industrialized countries harder in terms of manufacturing growth, the second recession has equally affected both industrialized and developing countries.



According to mid-year UNIDO estimates, the MVA of industrialized countries is expected to grow by 1.4 percent in 2012, while MVA growth in developing countries may drop to 4.5 percent in 2012 from 5.4 percent in 2011. In 2012, China's MVA growth is expected to decrease to 9.0 percent from 10.6 percent in 2011. China accounts for nearly half of the MVA of developing countries, and thus plays a leading role in the growth rate of developing countries as a whole. The growth of export-oriented manufacturing industries of many other developing

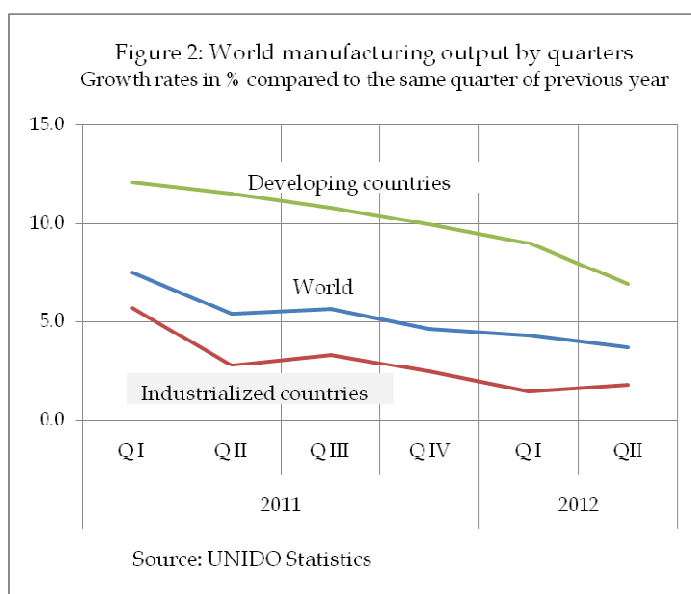
countries has also fallen as a result of the loss of demand in external markets. In some developing countries domestic demand, too, has dropped due to the perceived growth uncertainty at the global level.

Among the industrialized countries, positive developments are evident in East Asia and North America. Japan and the United States have maintained improved growth prospects in the last few months of 2012, a development that is expected to continue for the rest of the year. However, growth in North America appeared to be less robust than East Asia's. The MVA of North America is expected to grow by 1.7 per cent in 2012, while East Asia's industrial production could rise up to 4.1 percent. There is, however, concern about European spillovers in these regions as well. Moreover, the expected measures of fiscal consolidation in the United States may affect household income, thereby cutting consumer expenditure and reducing demand for manufactured goods. The MVA of European countries has continuously fallen over the last several months of 2012 and is expected to further decline by 1.7 percent in 2012. Prolonged instability in the Euro-zone countries has caused negative spillovers in other European countries. Thus, the major risk for the global recovery of industrial growth lies in Europe.

2. Industrial output in the second quarter of 2012

World manufacturing output growth further slowed during the second quarter of 2012 due to the ongoing second economic recession, which has progressively affected the manufacturing production of developing countries. The growth was lower in the second quarter for industrialized as well as for developing countries, as illustrated in Figure 2.

According to UNIDO estimates, world industrial production in the second quarter grew by 3.7 percent, lower than the 4.3 percent in the first quarter¹. The manufacturing sector of developing economies, which largely resisted the financial volatility of the first recession of 2008 – 2009, witnessed lower production growth after 2010 due to a prolonged reduction in



¹ Figures for Quarter I of 2012 are revised estimates (see Table 5 in Annex) , which might differ from those published in earlier reports.

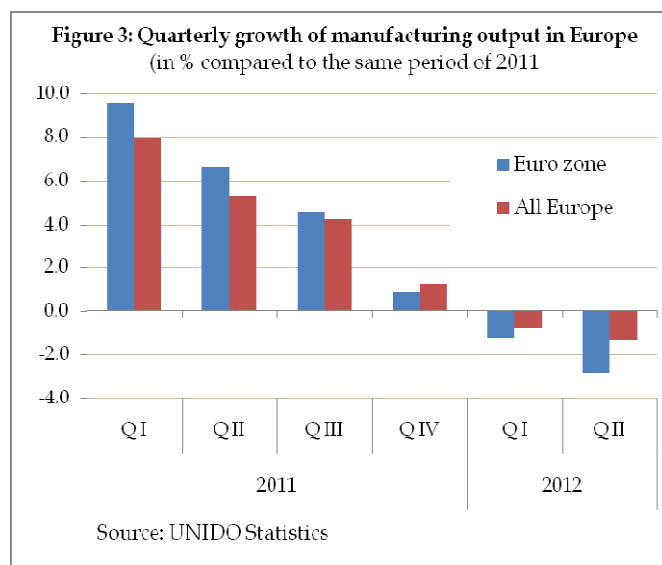
external demand and uncertainty in domestic markets.

Industrial growth in industrialized countries has continued to remain low after 2010. The manufacturing output of these countries rose by 1.8 percent in the second quarter of 2012 compared to the same period of the previous year. By contrast, developing countries maintained a relatively higher growth rate; however, the downward trend is explicitly shown in Figure 2. In the second quarter of 2012, the manufacturing output of developing countries grew by 6.9 percent compared to 9.0 percent in the first quarter.

By country group

The trend of manufacturing output among industrialized countries has been a mixture of dynamic growth in the countries of North America and East Asia and sustained uncertainty arising from Europe's financial instability. Both Japan and the United States enjoyed strong growth in the second quarter of 2012. Manufacturing output rose by 5.6 percent in the United States and by 7.8 percent in Japan in the second quarter. The production of machinery and equipment and of motor vehicles, especially compared to the low base of the last year, contributed to the higher manufacturing growth in both countries. However, the growth in US manufacturing has not been as dynamic as expected. The growth in the second quarter compared to the first achieved a marginal rate of less than 1.0 percent. Such a contraction can be explained by the uncertainty over the possible measures of fiscal consolidation, which, as mentioned earlier, could force households to save and reduce expenditures.

A major decline in industrial production was evident in European countries. The production downturn at the beginning of the second recession in 2011 was limited to a few countries of the Eurozone only. However, by the second quarter of 2012, all major economies of the Eurozone are facing a decline in industrial production. Austria, Finland and Slovakia are among the few exceptions which continued to post positive growth rates. The manufacturing output of the Eurozone countries dropped by nearly 3.0 percent in the second quarter compared to the same period of the previous year. The

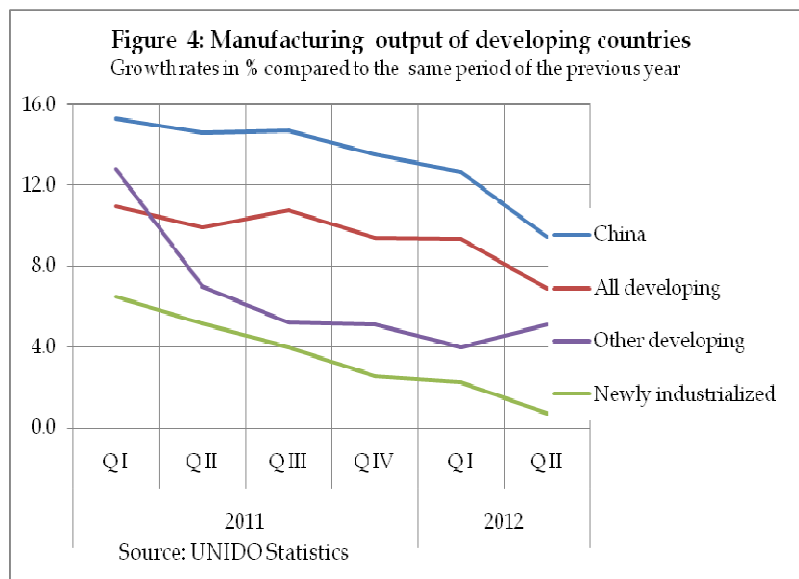


overall decline in industrial production in Europe has been estimated at 1.3 percent for the same period.

As shown in Figure 3, manufacturing growth was higher in the Eurozone countries at the beginning of 2011 compared to the overall European average². This pattern reversed during the third quarter of 2011, especially after Italy and Spain registered negative growth rates. Throughout 2012, the manufacturing output of the industrialized countries in Europe has consistently fallen, which has threatened overall growth not only in Europe, but far beyond in other regions.

Among the major economies of the Eurozone, manufacturing output dropped in the second quarter of 2012 in France by 3.1 percent, in Germany by 0.7 percent, in Italy by 8.2 percent and in Spain by 7.6 percent. UNIDO previously reported on the possibility of negative spillovers due to the Eurozone’s financial instability. The austerity measures adopted by European countries could not effectively prevent the economic downturn from spreading to the rest of Europe. Manufacturing output also fell in Croatia, Denmark, Sweden, the United Kingdom and the Russian Federation.

The current recession in Europe has a significant impact on the manufacturing growth of developing countries. The overall effect of the financial crisis in industrialized countries on the industrial growth of developing countries became visible with some time lag at the beginning of 2012. China’s and other developing country groups’ manufacturing output fell gradually in 2011 and took a sharper downturn at the beginning of 2012. The risk of



a further loss in production remains due to the volatility of capital flows to developing economies as the lending capacity of industrialized countries continues to be weak. Decreasing household income during the period of economic recession in Europe has significantly reduced demand for consumer goods imported from developing countries. The effect of the economic recession in Europe is being

² Refers to the industrialized countries of Europe only. For a UNIDO definition of industrialized countries, see *International Yearbook of Industrial Statistics 2012*, UNIDO

transmitted to developing countries through commodity exchange, capital flows and remittances. The overall growth rate of manufacturing output in developing countries has been estimated at 6.9 percent in the second quarter of 2012. Although this can still be considered relatively high, it is still significantly lower compared to the 9.0 percent in the first quarter of 2012.

The growth rates of manufacturing output dropped in major developing economies in the second quarter of 2012. China's growth rate decreased to 9.5 percent from 12.7 percent in the first quarter. Mexico, Malaysia and Indonesia performed well with growth rates of 4.5 percent, 5.7 percent and 6.1 percent, respectively. However, industrial production dropped by 4.8 percent in Brazil and by 0.7 percent in India in the second quarter. Among other developing economies, manufacturing output fell in Argentina, Colombia and Peru. Negative growth was also observed in the developing countries of North Africa. Manufacturing output fell sharply in Egypt by 9.6 percent and by 7.5 percent in Tunisia. These estimates indicate that the second economic recession is being experienced on a global scale.

By industry group

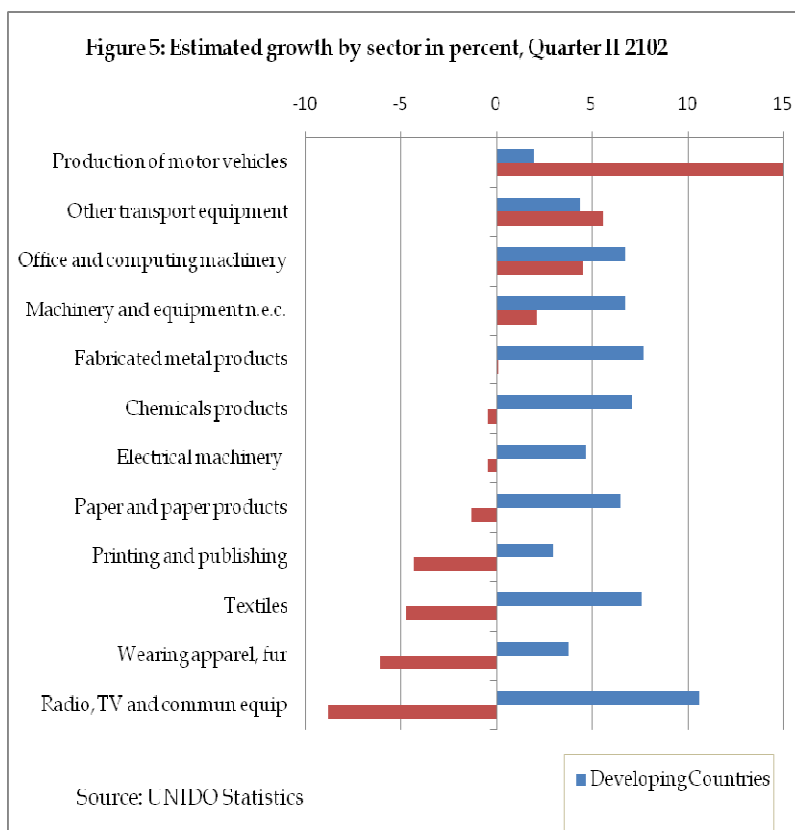
Growth estimates are also separately provided by the manufacturing sector for industrialized and developing countries.

Industrialized countries have comparative advantages in high-technology products and capital goods, such as machinery and equipment, medical and precision equipment, motor vehicles and other transport equipment. They generally dominate production and export in these industries. Starting in the second half of 2011, the production of motor vehicles has sharply increased in Japan and the United States. Among other sectors, the production of medical and precision equipment showed notable growth in Japan, while US growth performance was relatively high in the production of machinery and equipment as well as of electrical and electronic appliances.

Among European industrialized countries, the impact of the economic recession was evident across sectors (see Figure 5) . Germany's production of motor vehicles grew by less than 1.0 percent, while the production of machinery and equipment rose by merely 2.0 percent in the second quarter of 2012. In France, the production of motor vehicles fell sharply by 13.7 percent. Its food and beverage production fell as well by 1.4 percent. The output of the chemicals industry in the United Kingdom decreased by 7.7 percent and non-metallic mineral products dropped by 15.2 percent. Due to the limited demand, the production of consumer

goods such as food and beverages, textiles, wearing apparel and leather goods shrank in many industrialized European countries. In Italy, for example, the production of wearing apparel fell by 9.0 percent and of leather goods by 10.2 percent in the second quarter of 2012.

As depicted in Figure 3, developing countries maintained a positive growth rate across all manufacturing sectors. Generally, developing countries dominate the traditional processing industries such as textiles, wearing apparel and fabricated metal products. However, recent estimates indicate a more diversified growth of the manufacturing industry in many developing countries. In the second quarter of 2012, the output of developing countries in office and computing machinery rose by 6.8 percent, electrical machinery by 4.7 percent and the production of radio, television and communication equipment by 10.6 percent.



The decrease in demand for consumer goods in external markets has to some extent altered the growth pattern of developing economies. Recent estimates show that the production of consumer goods such as food, beverages, textiles and wearing apparel has either slowed or dropped, while relatively high-technological products continue to enjoy higher growth rates. China's production of office and computing machinery rose by 10.6 percent and electrical machinery by 9.6 percent. However, its production of textiles, wearing apparel and consumer electronics grew at a slower rate due to the fall in demand in external markets. In India, the production of medical and precision equipment rose by 13.5 percent, however, that of wearing apparel decreased by 6.2 percent in the second quarter of 2012.

Further statistics on the growth rates for the second quarter of 2012 are presented in the statistical annex.

Annex - Statistical tables

Table 1: Estimates of annual MVA growth by group, at constant US\$ 2000 (in percent to previous year)

	Estimates for 2011	Expected for 2012
World	2.9	3.0
Industrialized countries	0.4	1.4
North America	0.4	1.7
East Asia	-1.6	4.1
Europe	1.8	-1.7
Developing countries	5.4	4.5
China	10.6	9.0
Newly industrialized countries	5.7	4.4
Other developing countries	3.7	4.4

Table 2: Estimated growth rates of world manufacturing output
Quarter II, 2012

	Share in world MVA (2010)	Growth rates compared to:	
		previous quarter	same period of the previous year
World	100.0	0.2	3.7
Industrialized countries	67.9	0.0	1.8
North America	24.8	0.4	5.3
Europe	23.5	-0.7	-2.8
East Asia	18.1	0.7	5.9
Developing countries (by development group)	32.1	0.6	6.9
China	15.4	1.4	9.5
Newly industrialized countries	12.8	-1.4	0.7
Other developing countries	3.5	1.4	5.1
Developing countries (by region)	32.1	0.6	6.9
Africa	1.0	-0.2	-1.7
Asia	24.1	0.6	8.2
Latin America	5.7	0.2	-0.7
Others	1.2	1.7	3.1

Table 3: Estimated growth rates of output by manufacturing sector,
Quarter II, 2012
(in % compared to the same period of the previous year)

	Developing Countries	Industrialized Countries	World
Food and beverages	8.3	0.3	3.6
Tobacco products	3.4	-0.5	2.6
Textiles	7.6	-4.7	3.9
Wearing apparel, fur	3.8	-6.1	0.2
Leather, leather products and footwear	5.0	-8.6	0.2
Wood products (excl. furniture)	9.0	-1.3	1.9
Paper and paper products	6.5	-1.3	1.8
Printing and publishing	3.0	-4.3	-3.3
Coke, refined petroleum products, nuclear fuel	2.6	0.1	1.4
Chemicals and chemical products	7.1	-0.4	2.0
Rubber and plastics products	6.9	-0.7	1.8
Non-metallic mineral products	8.7	-4.4	2.2
Basic metals	9.0	0.7	6.3
Fabricated metal products	7.7	0.1	1.8
Machinery and equipment n.e.c.	6.8	2.1	3.7
Office, accounting and computing machinery	6.8	4.5	4.8
Electrical machinery and apparatus	4.7	-0.4	2.0
Radio, television and communication equipment	10.6	-8.8	3.2
Medical, precision and optical instruments	10.9	2.0	3.2
Motor vehicles, trailers, semi-trailers	2.0	19.2	15.7
Other transport equipment	4.4	5.6	5.0
Furniture; manufacturing n.e.c.	9.3	-1.9	3.2
Total Manufacturing	6.9	1.8	3.7

Table 4: Estimated growth rates of output by manufacturing sector,
Quarter II, 2012
(in percent compared to Quarter I of 2012)

	Developing Countries	Industrialized Countries	World
Food and beverages	-1.9	-0.4	-1.0
Tobacco products	6.5	-0.7	5.3
Textiles	-1.5	-1.4	-1.5
Wearing apparel, fur	-3.2	0.3	-2.1
Leather, leather products and footwear	-1.4	0.5	-0.8
Wood products (excl. furniture)	-4.4	-0.8	-1.9
Paper and paper products	0.1	0.1	0.1
Printing and publishing	0.5	-0.8	-0.6
Coke, refined petroleum products, nuclear fuel	-1.6	-0.6	-1.1
Chemicals and chemical products	0.6	-0.1	0.1
Rubber and plastics products	0.4	-1.8	-1.0
Non-metallic mineral products	0.0	-0.7	-0.3
Basic metals	0.5	-0.1	0.3
Fabricated metal products	-4.5	0.3	-0.9
Machinery and equipment n.e.c.	-0.7	-0.6	-0.6
Office, accounting and computing machinery	4.4	1.3	1.6
Electrical machinery and apparatus	5.0	1.2	3.1
Radio, television and communication equipment	10.8	-6.1	4.5
Medical, precision and optical instruments	3.4	-0.3	0.2
Motor vehicles, trailers, semi-trailers	-2.5	0.2	-0.3
Other transport equipment	-0.6	3.0	1.1
Furniture; manufacturing n.e.c.	1.6	-1.1	0.2
Total Manufacturing	0.6	0.0	0.2

Table 5: Estimated growth rates of world manufacturing output
 Quarter I, 2012 (Revised)

	Share in world MVA (2010)	Growth rates compared to:	
		previous quarter	same period of the previous year
World	100.0	3.8	4.3
Industrialized countries	67.9	0.0	1.5
North America	24.8	2.2	5.1
Europe	23.5	-1.5	-1.3
East Asia	18.1	-0.5	2.7
Developing countries (by development group)	32.1	10.7	9.0
China	15.4	16.4	12.7
Newly industrialized countries	12.8	0.5	2.1
Other developing countries	3.5	0.8	2.0

Table 6: Estimated growth rates of output by manufacturing sector,
Quarter I, 2012 (revised)
(in % compared to the same period of the previous year)

	Developing Countries	Industrialized Countries	World
Food and beverages	11.3	0.8	5.1
Tobacco products	14.3	0.0	11.5
Textiles	9.3	-5.0	4.9
Wearing apparel, fur	5.6	-5.0	1.8
Leather, leather products and footwear	12.0	-7.3	5.0
Wood products (excl. furniture)	12.6	-0.8	3.4
Paper and paper products	8.3	-2.8	1.2
Printing and publishing	14.9	-3.9	-1.7
Coke, refined petroleum products, nuclear fuel	2.6	0.4	1.5
Chemicals and chemical products	10.2	-2.0	1.7
Rubber and plastics products	8.3	-0.5	2.3
Non-metallic mineral products	10.2	-4.1	3.0
Basic metals	10.3	-2.8	5.5
Fabricated metal products	12.8	0.4	3.2
Machinery and equipment n.e.c.	8.3	4.9	6.1
Office, accounting and computing machinery	6.9	3.9	4.2
Electrical machinery and apparatus	9.1	-1.3	3.6
Radio, television and communication equipment	4.3	-9.2	-1.2
Medical, precision and optical instruments	11.8	5.0	5.9
Motor vehicles, trailers, semi-trailers	3.9	11.0	9.6
Other transport equipment	6.8	4.3	5.6
Furniture; manufacturing n.e.c.	13.5	-0.6	5.7
Total Manufacturing	9.3	1.5	4.3