

Industry Outlook:

Key Points

- 1 Low priced domestic feedstock, particularly from shale gas, has resulted in resurgent growth in the U.S. chemical sector. In 2014, American chemicals revenues are expected to reach approximately \$800 billion; by 2018, the industry's revenues will surpass \$1.0 trillion.
- 2 In turn, by taking advantage of the cost differential abroad, U.S. producers will have the opportunity to benefit from increased export activity. We expect strong growth in U.S. chemical exports exceeding 6% in 2014 and 7% in 2015.
- 3 This had led to an investment boom in the sector that will have a beneficial impact to downstream markets for petrochemicals, plastics and specialty chemicals.

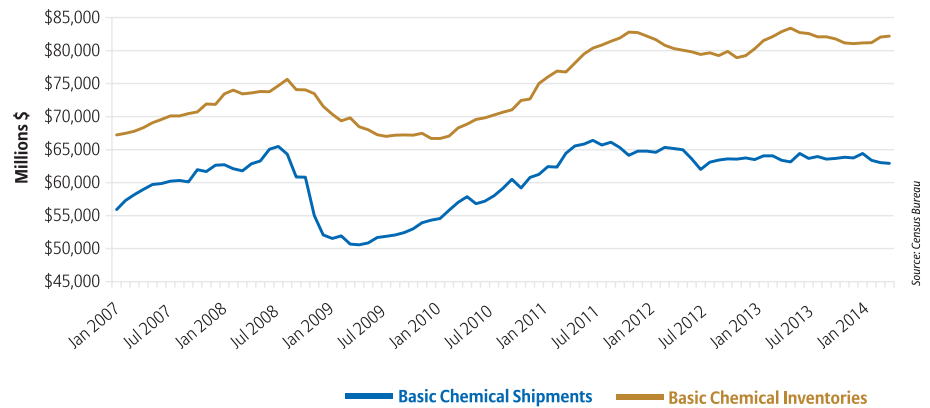


Chemicals

The U.S. chemical industry is an essential part of the American economy. According to the American Chemistry Council (ACC), the U.S. chemical sector is a \$770 billion industry and employs 784,000 people. Chemical products are used in a vast array of industries and products and thus the industry has a significant impact on the broader economy.

The U.S. chemical industry performed fairly well in 2013 with total production increasing 2% compared to a (0.8%) decline in the Eurozone chemical sector. This reasonable growth was supported by continued strong performance in the automotive industry and an improving situation in several other key end-markets such as appliances, construction, plastics, and industrial machinery. However, the industry's expansion has been constrained by persisting economic uncertainty, government spending cuts, and underperformance in export market economies.

Basic Chemical Shipments & Inventories



Outlook

In 2014, the U.S. chemical industry is expected to improve upon its modest 2013 performance as major key end-markets continue to recover and improvements in the global economy result in growing export demand. Industry production is anticipated to grow at a better pace of approximately 3% in 2014 and raise approximately 3.5% in 2015. The industry's capacity utilization should improve, driven by increasing production volumes in 2014. Margins are expected to remain quite robust, due to a low natural gas price windfall.

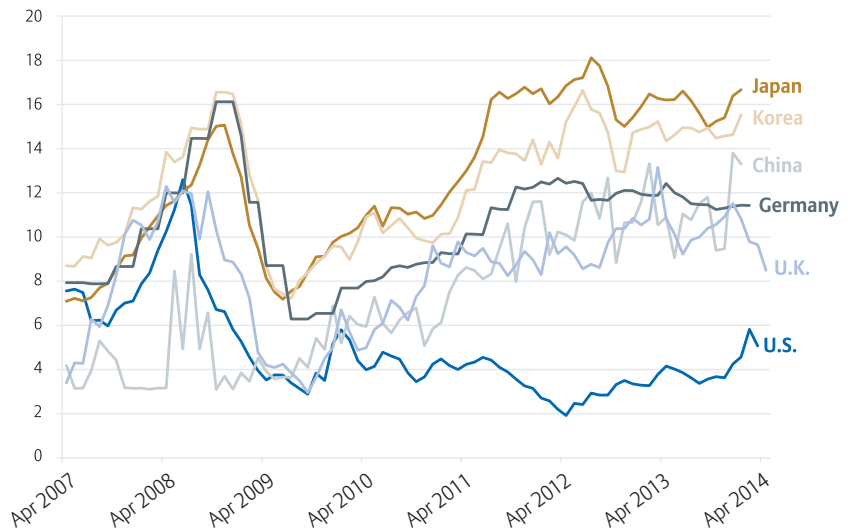
The abundant supply and low price of natural gas from shale formations continue to have a profound impact on the American chemical industry. Oil and gas prices don't run in tandem anymore, providing U.S. chemical companies with a serious cost advantage over their foreign counterparts. Cheaper feedstock and energy costs in turn, result in stronger margins and a much better ability to compete in the global marketplace. The U.S. trade balance in chemical products has changed from a deficit to a surplus. The improved global competitiveness of the U.S. chemical sector has resulted in a boom of investment activities in the sector as much from U.S.





producers as from foreign competitors, reversing a decade-long decline. Over \$90 billion worth of investments in various chemical projects have been announced in the U.S. for the next several years. These projects will start to come online in 2015, generating much stronger growth in the industry. ACC expects U.S. chemical sector revenues to exceed \$1.0 trillion by 2018.

Price of Natural Gas, \$/MMBtu



Source: Energy Intelligence

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Opportunities

U.S. chemical exports are expected to grow in the coming years supported by the industry's improved competitiveness and ramped up production. The growth will be primarily concentrated in the petrochemical subsector but will also translate to stronger performance of downstream subsectors such as polymers, plastics, specialty and agricultural chemicals. As global manufacturing activity improves, U.S. chemical exports will grow approximately 6.6% in 2014 and 7.6% in 2015. The U.S. chemical sector is likely to cash in the shale gas bonanza in the form of lower feedstock prices and the country will also benefit from increased natural gas based energy production which will help contain energy inflation as well as carbon emissions.

Challenges

The chemical companies supplying electronic manufacturers generally underperformed in 2012 and 2013. Pricing pressures faced by domestic electronics manufacturers can carry up the supply chain to chemical suppliers. Even if the subsector is likely to benefit from recent cost-reduction measurements and restructurings, market conditions for electronic chemicals remain quite challenging.

What this means for your business

The American chemical industry is poised to benefit from a vast supply of cheap shale gas. The ongoing recovery in major domestic end-use markets, an improving global economy, and stronger competitiveness are raising demand for American chemical products. However, this optimism must be placed in the context of specific risks to companies in the chemicals industry value chain. For example, as exports will become more attractive to U.S. chemicals companies, they will need to ensure they very carefully manage the inherent risks of exporting by maintaining cash flows, holding down DSO, and ensuring payment of receivables. Additionally, raw material price volatility can pressure profit margins and the resulting pricing pressures can be particularly damaging to distributors in the middle of the value chain. Of course, Euler Hermes' 120 years of credit management experience can help manage these risks and provide companies with the confidence they need to safely expand sales.