

## **MAPI: Economy Weakening, But Manufacturing Stays Afloat**

***Industrial Production Forecast to Grow 6 Percent in 2011, 4 Percent in 2012***



**Arlington, VA.** — A host of factors, ranging from the tsunami in Japan to higher oil prices, have conspired to weaken the outlook for the overall U.S. economy, yet the manufacturing sector continues to forge ahead, according to the ***Manufacturers Alliance/MAPI U.S. Industrial Outlook (ER-723)***, a quarterly report that analyzes 27 major industries.

“The positive momentum of a 2 percent reduction in payroll taxes this year and 100 percent expensing of equipment and software investments has been more than offset by higher oil prices, and Japanese automakers in the U.S. faced a parts shortage as a result of the tsunami,” said Daniel J. Meckstroth, Ph.D., Chief Economist for the Manufacturers Alliance/MAPI and author of the analysis.

“Manufacturing, though, is currently well positioned for growth. There is pent-up demand for consumer durables, firms are profitable and need to spend more for both traditional and high-tech business equipment, and strong growth in emerging economies is driving U.S. exports.”

By supplying major assumptions for the economy and running simulations through the IHS Global Insight Macroeconomic Model, the Alliance generates unique macroeconomic and industry forecasts.

Manufacturing industrial production, measured on a quarter-to-quarter basis, grew at a 7 percent annual rate in the first quarter of 2011, after expanding at a 3.4 percent annual rate in the fourth quarter of 2010. MAPI forecasts that manufacturing production will increase 6 percent in 2011 and advance by 4 percent in 2012.

Production in non-high-tech manufacturing expanded at a 5.7 percent annual rate during the first quarter of 2011. According to the MAPI report, non-high-tech manufacturing production (which accounts for 90 percent of the total) is expected to increase 5 percent in 2011 and 4 percent in 2012. High-tech industrial production rose at a 21 percent annual rate in the first quarter of 2011. MAPI anticipates this

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Published on Industrial Maintenance & Plant Operation (<http://www.impomag.com>)

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sector will post strong 15 percent growth in 2011 and 13 percent growth in 2012.

As shown in the new report, 18 of the 27 industries MAPI monitors had inflation-adjusted new orders or production above the level of one year ago, two more than reported in the previous quarter, and four industries remained flat. Industrial machinery grew by 32 percent in the three months ending April 2011 compared to the same period one year earlier, while mining and oil and gas field machinery production improved by 29 percent in the same time frame.

The largest drop came in housing starts, which declined 15 percent. Private nonresidential construction experienced an 11 percent decline.

Meckstroth reports that five industries are in the accelerating growth (recovery) phase of the business cycle; 17 industries are in the decelerating growth (expansion) phase; two industries appear to be in the accelerating decline (either early recession or mid-recession) phase; and three are in the decelerating decline (late recession or very mild recession) phase of the cycle.

The report also offers economic forecasts for 24 of the 27 industries. MAPI forecasts that 21 of the 24 industries will show gains in 2011, led by mining and oil and gas field machinery, and industrial machinery, each with expected 26 percent growth. One industry, electric lighting equipment, will remain flat. The recovery should continue in 2012 with growth likely in 23 of 24 industries, including five industries that are predicted to grow at double-digit rates, led by housing starts at 61 percent, albeit from depressed levels, and communications equipment at 16 percent. Public works construction is the only industry anticipated to decline, by 2 percent, in 2012.

**Source URL (retrieved on 08/21/2014 - 5:44pm):**

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