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Industrial Outlook: U.S. Economy Strengthens as Unemployment Falls, Consumer Outlook Brightens



Government and private-sector data showed the U.S. economy continued to strengthen last month. It will be some time before it is clear whether recent months' economic performance is a false start, or the start of a strong and sustained climb upward. But one trend is clear: Economists, business owners and industrial workers are singing a happier, more upbeat tune these days.

Unemployment Down, Manufacturing Employment Up

The U.S. added 200,000 non-farm payroll jobs during December, the sixth consecutive month that monthly job gains exceeded 100,000, according to the Labor Department. December's job gains lowered unemployment rate two notches, to 8.5%, its lowest level in nearly three years.

About 1.6 million new jobs were created during 2011, Labor noted. By contrast, the nation added only 940,000 jobs in 2010 and lost more than 5 million in 2009, at the trough of the Great Recession. It will take creation of an additional 6 million new jobs to get U.S. employment level back to where it was in December 2007, when the Great Recession began.

"The labor market is healing," Diane Swonk, chief economist at Mesirow Financial, told the Associated Press. But, she cautioned, "we still have a long way to go – years – to recoup the (job) losses we have endured."

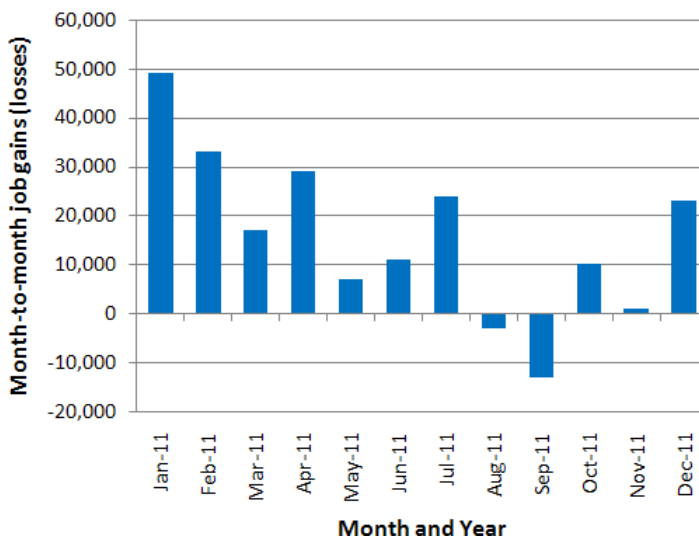
Another economist, Markus Schomer of PineBridge Investments, told The New YorkTimes he is much more upbeat about the U.S. economy than he was last summer, when the nation's political leaders were squabbling over proposals to increase the federal debt ceiling. "The improving trend in the U.S. labor markets is not just a temporary blip, but seems to be something quite sustainable," he said after the Labor Department released December unemployment data. He added that he is increasing his growth forecast for 2012. Some economists see 2 million new jobs being created during 2012.

"The worst is over," said Hamdi Ulukaya, chief executive of yogurt company Chobani. He told The New York Times his company was building a new plant in Idaho, investing \$100 million in upgrades to the company's existing plant in South Edmeston, N.Y., and hiring hundreds of workers.

Despite the recent employment gains, more than 13 million people were out of work at yearend 2011. The Labor Department's data showed that last month's lowered unemployment rate came less from discouraged workers dropping out of the workforce and more from actual job creation. Both factors affect the unemployment rate, but prior to December, a significant part of the reason for lowered unemployment came from people who had exited the workforce, unable to find jobs after months or years of looking.

U.S. manufacturers added about 23,000 new jobs during December, the strongest gain since July, and up sharply from the 1,000 new workers that were hired in November (see chart below). Over the last 12 months, U.S. manufacturers created about 188,000 new jobs, though hiring has been choppy on a month-to-month basis. U.S. manufacturers have had positive full-year employment gains for two years in a row, the first time that has happened in more than a decade. U.S. manufacturing employment peaked in 1979 at 19.6 million workers. At yearend 2011 it stood at about 11.8 million, according to the Labor Department.

Monthly Changes in U.S. Manufacturing Jobs



In a separate yearend report, the Labor Department said the moving four-week average for first-time unemployment claims dropped to 375,000, the lowest level since June 2008. Economists consider the 375,000 mark a sign that the economy is growing fast enough to push unemployment lower.

Virtuous Cycle: Growing Economy, Strong Profits, Rising Consumer Confidence

In its final estimate on U.S. gross domestic product (GDP) for the third quarter, the Commerce Department's Bureau of Economic Analysis (BEA) said that the economy grew by 1.8% during the July-September period, down slightly from its first and second estimates. But strong initial holiday sales fed hopes for a 3% growth in GDP for the fourth quarter. BEA is scheduled to report its preliminary estimate of fourth-quarter GDP growth January 27.

The BEA report noted that personal consumption and durable goods production both increased during the third quarter. Corporate profits also increased during the third quarter, but the increase (\$32.5 billion) was about half the level seen in the second quarter (\$61.2 billion), the agency noted.

Consumer confidence continued its recent surge, rising to 64.5 in December from 55.2 in November and 40.9 in October, according to The Conference Board. The group's yardstick for consumer confidence, 100, was reached in 1985. So while it is clear that consumer confidence is rising, it still has a way to go before returning to the "good old days."

Another important measure tracked by The Conference Board, CEO confidence, reached 49 in the fourth quarter after falling to 42 during the third quarter. A reading over 50 indicates more positive than negative outlooks among the nation's chief executives.

"The bounce back in CEO confidence in the final months of 2011 was due primarily to an improved short-term outlook," said Lynn Franco, director of The Conference Board Consumer Research Center. "Overall, however, CEO confidence remains rather subdued. On the inflation front, CEOs anticipate price increases of about 1.8 percent for 2012, down from last year's estimate of 3.3 percent."

Right now, about 32% of CEOs anticipate an improvement in economic conditions over the next six months, up from only 19% that held such a view during the third quarter, The Conference Board said.

The Federal Reserve said U.S. consumers took out more loans to buy cars and used their credit cards more to buy holiday gifts during November, another sign of growing confidence in the economy. Consumer borrowing rose \$20.4 billion in November, the largest increase since a \$28 billion gain in November 2001. Auto loans increased \$14.8 billion, close to the amount of increase last July, which was the biggest gain in more than six years.

In other positive economic news, only 92 banks failed in 2011, down sharply from the 157 that failed in 2010 and the 149 that failed in 2009. And although nearly one-quarter of all home mortgages were underwater at yearend, that was an improvement from 2010, when more than 30% of borrowers owed more on their homes than they were worth. While neither the banking nor the home mortgage data were cause for outright celebration, they clearly showed an improving trend.

Looming Threats: U.S. Politics, China's Economy, Europe's Debt

Although various data point to a U.S. industrial economy that is gaining strength, analysts caution that any number of events could derail that recovery, similar to what happened last March when the Fukushima nuclear plant melted down.

In the U.S., Congress returns from its year-end recess in mid-January. One of its first orders of business is deciding whether (and under what conditions) to extend the payroll tax cut and unemployment insurance legislation beyond late-February. Congress reluctantly approved a 60-day extension of those programs in late-December. President Barack Obama wants to extend them to the end of 2012. Congress only acceded to a 60-day extension after an avalanche of negative publicity—including from some of its own members—fell on House Republicans after their initial refusal to extend the benefits.

In initially rejecting the 60-day extension, House Republicans argued for a different package of spending cuts and budgeting priorities. Will this be the policy issue where Tea Party-backed House members follow their principles, dig in their heels and vote to dramatically shrink the size of government? During an election season, such a move would amount to a stance of, "Damn the torpedoes, full speed ahead!" But that's what brought 87 Tea Party-backed House Republican freshmen to Washington in the first place.

Republican presidential primaries and caucuses began this month. Former Massachusetts Governor Mitt Romney won in Iowa and New Hampshire, and is leading in the hotly contested South Carolina primary, which will take place January 21.

The field of Republican presidential candidates has thinned: Herman Cain, Michele Bachmann and Jon Huntsman have abandoned their bids. Texas Governor Rick Perry and former House Speaker Newt Gingrich have fared badly in the early contests, and may drop out in the near future. Texas congressman Ron Paul and former U.S. Senator Rick Santorum have surged of late and are expected to remain in the race, at least through Florida's January 31 primary.

Depending on the state in question, "jobs" and "values" are the topics that most animate voters. Romney's background in business suggests he might be more pro-business than other Republican candidates. But it's still too early to speculate how the outcome of the Republican primaries could affect industrial concerns.

Overseas, news that the white-hot economies of China and India continued slowing could cause a recalibration of growth plans among North American industrial equipment manufacturers and service providers. According to an estimate from Deutsche Bank, during the third quarter of 2011 China's economy grew by 9.1% over comparable year-earlier quarterly economic growth. That nation's economy grew by 9.5% during the second quarter of 2011 compared to Q2 2010, and 9.7% in Q1 2011 compared to the January-March period of 2010. Ma Jun, an economist with Deutsche Bank, predicted continued slowing of growth this year: First quarter 2012 growth should be 6-7% over Q1 2011, she said in an early-January conference.

India's economy also is decelerating. Since a recent record high of 9.4% GDP growth in the first quarter of 2010, that nation's quarterly economic growth has steadily fallen, reaching 6.9% for the third quarter of 2011—still a very respectable number, though hundreds of billions of dollars less than what it was 18 months earlier. India's central bank has increased interest rates to cool inflation, which has crimped industrial growth.

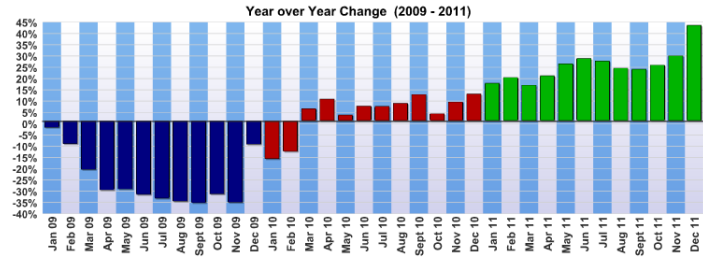
The outlook for Europe's debt crises and economic growth continues to see-saw, from catastrophic one day to manageable the next. Few see signs of outright good news, particularly given the slowing of India's and China's economies.

In the Middle East, the prospect of Iran impeding the shipment of oil by blockading the Strait of Hormuz made oil markets jittery in recent weeks. Nearly one-fifth of the world's oil moves

through the Strait, and any action that slowed—or threatened to slow—movement of that oil drives up prices. A U.S. naval response is seen as likely if Iran tries to interfere with shipping in the Strait. A military engagement in the Strait could push oil to \$150 per barrel, analysts fretted, which could push several economically teetering nations into an outright recession.

North American Industrial Activity

Against this highly dynamic background, North American industrial concerns closed out 2011 and began 2012 in a generally optimistic, though not wildly exuberant, mood. Preliminary project data from Industrial Info's North American Industrial Spending Index showed a 44.5% increase in the value of projects moving forward compared to year-earlier project activity (see chart below). December marks the 13th consecutive month that this index has shown double-digit increases in industrial project spending. In the chart, 2009 is shown in blue, 2010 in red and 2011 in green.



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Note: Right-Click on Link and use "Save Target As..."

Although the Spending Index has increased for 22 consecutive months, Industrial Info has uncovered a number of instances where projects scheduled to begin in December have been pushed into 2012, so we caution readers that this data is preliminary and subject to downward revision during early 2012. We still see an industrial economy that is growing. But our commitment to getting the data right means the numbers we have today must be treated as "preliminary," pending further confirmation.

Each month, Industrial Info Resources measures the value of active North American capital and maintenance projects scheduled to start construction in the current year. Then, that figure is compared to the rate of scheduled annual spending for the prior year. A positive number signals growth, while a negative number signals a contraction in industrial spending.

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Oil & Gas Outlook: Slowdown in Keystone XL Pipeline Won't Stall Canadian Oil Sands Development



Development of Canada's massive oil sands deposits will keep moving forward despite delays in plans to construct two pipelines-- Keystone XL and Northern Gateway--that would bring the oil to market. Jesus Davis, Industrial Info's vice president of research for the Oil & Gas [Production](#), [Transmission](#) and [Terminals](#) industries, said in an exclusive "Navigating the Currents of Change" interview. "I don't expect any (pipeline) delays will affect project spending on oil sands crude oil production; the crude will still come down to the U.S. via existing pipelines or other proposed pipelines," said Davis.

Development of Alberta's oil sands continues to grow rapidly; Davis said the province's oil sands-related project spending is scheduled to exceed \$20 billion in 2012, though he doesn't expect all of that spending to occur as planned. Indeed, he said, some of this year's scheduled spending includes some projects that were delayed from 2010 and 2011. For more on the development of Alberta's of its oil sands resource, see December 28, 2011, article - [Development of Alberta's \\$192 Billion Oil Sands Projects Continues to Intensify](#).

The proposed Keystone XL pipeline has become a bargaining chip in the ongoing legislative battle between Democrats and Republicans in Washington, D.C. Ten weeks ago, President Barack Obama postponed a decision on Keystone XL until after the presidential elections of 2012. For more on that decision, see November 14, 2011, article - [Decision on Keystone XL Crude-Oil Pipeline Delayed Until After 2012 Presidential Elections](#). However, in December Republicans attached a measure forcing the president to decide on the pipeline's fate by the end of February as part of the legislative package that included extension of tax credits and unemployment insurance. The Obama administration said that, if forced to decide on Keystone XL's fate within 60 days, it would most likely reject it. The proposed pipeline has been under environmental review for about three years.

Keystone XL is a \$7 billion, 1,700-mile crude oil pipeline that would transport up to 700,000 barrels of oil per day (BBL/d) from Hardisty, Alberta, to Cushing, Oklahoma, and on to refineries along the Texas Gulf Coast. It would expand and extend the existing Keystone pipeline that brings oil sands-derived crude oil from Alberta to Cushing and St. Louis, Missouri. Keystone XL is owned by [TransCanada Corporation \(NYSE:TRP\)](#) (Calgary, Alberta). The project, strongly backed by the Canadian government, has strong supporters and opponents in the U.S. For more on the project's allies and opponents, see October 19, 2011, article [Keystone Crude Oil Pipeline Expansion Draws Strong Support, Fierce Opposition](#).

Map of the existing Keystone Pipeline and the proposed Keystone XL pipeline.



LARIS KARKLIS/THE WASHINGTON POST

Canada also is considering constructing a pipeline to transport the oil sands crude oil from Alberta to British Columbia, where it could be exported to Asia by tanker. A \$5.5 billion, 2,000-mile crude-oil pipeline, Northern Gateway, is being developed for that purpose. But the project has aroused its own considerable controversy lately, causing owner [Enbridge Incorporated \(NYSE:ENB\)](#) (Calgary) to push back the start of construction for the project, citing the large number of people that want to participate in public hearings on the proposed project.

But in his "Navigating" interview, Davis said another proposed pipeline project, Wrangler, could move some of the Canadian oil sands crude oil from Cushing to refineries along the Texas Gulf Coast. Existing pipelines, including the original Keystone pipeline, could get the crude oil from Alberta to Cushing. "The Canadian oil won't be stranded--it will just get here a little slower than if we had the Keystone XL online."

"2012 will be the first time in a long time that we will see significant spending on U.S. crude oil pipelines," Davis continued. "In previous years, all pipeline project spending was for facilities to transport either natural gas or natural gas liquids (NGLs). We'll see more outbound pipeline capacity from Cushing this year, which will alleviate the bottlenecks that have kept crude-oil storage levels high there."

"In Texas," Davis continued, "some companies are considering reversing the flow of crude oil in their pipelines to take advantage of high production levels in the Eagle Ford Shale. In prior years, crude oil was transported from Louisiana to refineries in Texas. But now, several companies are looking to reverse the flow in those pipelines: They want to send crude oil from Eagle Ford Shale to refineries in Louisiana."

Turning to other segments of the Oil & Gas Industry, Davis sees continued rapid development of the Eagle Ford and Bakken shales in 2012, perhaps at a rate that exceeds the near-frenzied pace reached in 2011. "There was explosive growth in the Eagle Ford and Bakken shales last year, and we see that continuing in 2012," Davis said. "We saw a lot of development in all U.S. shale formations in 2011, but the Eagle Ford and Bakken really took off because they contain crude oil, NGLs and natural gas. A lot of recent shale development has been focused on natural gas, but with low gas prices and high crude oil and NGL prices, areas with higher proportions of oil and NGLs will draw very high levels of developer interest."

In 2012, development of other, "drier" shale formations, such as the Barnett, Haynesville and Fayetteville shales, will continue at the same pace as 2011, Davis predicted. Though development there will not be as rapid as at the "wetter" shales like Eagle Ford and Bakken, these drier shales will nonetheless draw a lot of developer interest this year, he said.

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The global industrial economy continues to grow, driven by dramatic growth in developing nations like China, Brazil and India. Successful equipment manufacturers and service providers rely on Industrial Info's annual [Global Industrial Outlook](#) for in-depth analysis on the trends driving project spending in 12 industrial market segments. The newly released 2012 Global Industrial Outlook features major project spending statistics by industry, market region and budget type (capital and maintenance activity).

Spending statistics are derived from actual projects reported by Industrial Info. Quarterly updates throughout 2012 will keep you up to date on changes and forecast versus actual performances. Subscribers can access detailed trend analyses and spending statistics for the following industries:

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