2017 ACA Economic Climate Survey

By Allen Irish, American Coatings Association

For a number of years, ACA has conducted a survey of senior industry executives to determine how they collectively view the current business climate for our industry and to determine how they believe their firms and the industry will fare over the next year or so. The fall 2017 survey, like its recent predecessors, found that the industry’s senior leadership holds a relatively optimistic view of both its current situation as well as its prospects over the next year. If the opinions of the industry’s senior business leaders are on target, the coatings industry should maintain its trajectory of continued growth in 2018.

ECONOMIC BACKDROP FOR THE ACA SURVEY

Since ending its sharp decline in 2009, the coatings industry has seen largely unabated growth. As shown in Figure 2, the overall volume and value of the industry’s output have consistently grown at a roughly 3.4% rate over most of the period following 2009.

The National Association for Business Economics (NABE) compiles a consensus of macroeconomic forecasts from a panel of 50 professional forecasters. The NABE panel’s September 2017 outlook is that GDP will average 2.2% growth in 2017 and 2.4% growth in 2018.

The steady growth in both volume and value of architectural coatings, in particular, tracks the continuing recovery in construction since 2010, along with relatively steady growth of durable goods manufacturing during the recovery. Sales of coating solutions, one of the major drivers of paint demand, have consistently averaged over 5.2 million units (unmarried) for over a year now (as compared with less than 3 million in 2014).

Overall construction spending has risen steadily...
since its recent low point in January 2011 and has finally exceeded the level it last achieved during the height of the housing boom in early 2006 (Figure 2).

Going forward, overall construction spending growth is expected to remain moderately positive. The most recent National Association of Home Builders (NAHB) forecast for residential construction predicts total housing starts will rise nearly 4% in 2018, to 1,246,000, with single family starts rising, while multifamily starts are forecast to decline in 2018. The American Institute of Architects (AIA) Consensus Construction Forecast panel most recent prediction is for slower growth for the construction industry for the remainder of 2017 and through 2018, with overall spending for nonresidential buildings in 2017 projected to be 3.8%, and 3.6% in 2018.8

Similarly, the manufacturing sector, which is the primary driver of demand for OEM coatings, has shown continued strength since reaching its low point at the end of the recession. Overall durables manufacturing (new orders) has plateaued somewhat in the past year, reflecting a number of factors, including increased imports, but the motor vehicle sector has maintained its strong recovery from its lows of 2009 (Figure 5). Dr. Chad Motry of the National Association of Manufacturers is currently forecasting that manufacturing production will increase 1.7% in 2017 and 1.6% in 2018. The NAHB panel is slightly more optimistic, forecasting that 2017 industrial production growth will be 1.9% in 2017 and 2.3% in 2018.

2017 ACA ECONOMIC CLIMATE SURVEY FINDINGS

The ACA annual Economic Climate Survey is intended to capture and share the collective viewpoints of member companies’ senior executives and provide some insights into current and future business experience and expectations. ACA conducted the 2017 survey between September 7-28, 2017. The level of industry participation in this survey has remained relatively strong; in all, 46 ACA member company executives participated this year. For this survey, somewhat more respondents represented supplier members, distributors, and other members than coatings manufacturers, perhaps reflecting continuing industry consolidation.9 Of the participating coatings manufacturers, approximately 62.5% market their products nationally, with the remainder serving regional markets; and the mix of large and small-to-medium companies shows about 64% having sales exceeding $100 million, and about 56% below that line. Supplier and distributor participants were similarly representative, with about 44% reporting sales in excess of $250 million into the coatings market, and the rest having coatings-related sales below that level.

The context in which the 2017 survey was conducted is not only the relatively steady pace of the U.S. macroeconomic recovery since the recession ended in 2009, but also the generally steady growth in coatings demand that the industry has experienced during the past few years. The coatings industry grew 2.3% in volume and 2.6% in value in 2016—Architectural and OEM coatings were up, while the Special Purpose segment was down. The industry is also projected to grow at a 2.6% rate (volume) and 2.8% (value) in 2017.9 The responses to this survey, particularly the projections for future growth, should be seen in the context of a number of years of sustained and solid industry growth.

VIEWS ON CURRENT CONDITIONS REMAIN POSITIVE

Overall, the respondents in this year’s survey provided a slightly more upbeat outlook for the industry than they had a year earlier in the 2016 survey.10 This year’s survey saw manufacturers and suppliers expressing relatively consistent views on current (fall 2017) conditions vs fall 2016, with both coatings manufacturers and suppliers generally expressing positive outlooks. As shown in Figure 4, both manufacturers and suppliers saw things much the same way, although suppliers were slightly more optimistic than manufacturers.

10As noted, ACA conducted a similar survey of industry executives in 2016, as well as previous years.
11Unless otherwise specified, references to “suppliers” in this report also include distributors and other non-manufacturer respondents.
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**2017 ACA Economic Climate Survey Findings**

The ACA annual Economic Climate Survey is intended to capture and share the collective viewpoints of member companies’ senior executives and provide some insights into current and future business experience and expectations. ACA conducted the 2017 survey between September 7-24, 2017. The level of industry participation in this survey has remained relatively strong; in all, 46 ACA member company executives participated this year. For this survey, somewhat more respondents represented supplier members, distributors, and other members than coatings manufacturers, perhaps reflecting continuing industry consolidation.9 Of the participating coating manufacturers, approximately 62.5% market their products nationally, with the remainder serving regional markets; and the mix of large and small-to-medium companies shows about 64% having sales exceeding $500 million, and about 56% below that line. Supplier and distributor participants were similarly representative, with about 43% reporting sales in excess of $250 million into the coatings market, and the rest having coatings-related sales below that level.

**The context in which the 2017 survey was conducted is not only the relatively steady pace of the U.S. macroeconomic recovery since the recession ended in 2009, but also the generally steady growth in coatings demand that the industry has experienced during the past few years. The coatings industry grew 2.3% in volume and 2.6% in value in 2016—Architectural and OEM coatings were up, while the Special Purpose segment was down. The industry is also projected to grow at a 2.6% rate (volume) and 2.8% (value) in 2017. The response to this survey, particularly the projections for future growth, should be seen in the context of a number of years of sustained and solid industry growth.**

**Views on Current Conditions Remain Positive**

Overall, the respondents in this year’s survey provided a slightly more upbeat outlook for the industry than they had a year earlier in the 2016 survey. This year’s survey saw manufacturers and suppliers expressing relatively consistent views on current (fall 2017) conditions vs fall 2016, with both coatings manufacturers and suppliers generally expressing positive outlooks. As shown in Figure 6, both manufacturers and suppliers saw things much the same way, although suppliers were slightly more...
upbeat. Approximately 45% of weighted respondents indicated that current conditions were either "better" or "much better" than those experienced a year ago, with almost all the remaining respondents indicating that they were the same as last year—fewer than 5% indicated that they were "worse." This year’s respondents were somewhat more positive about current conditions than their 2016 counterparts. As shown in Figure 5, respondents in this year’s survey (2017) viewed current economic conditions more favorably than did respondents in last year’s (2016) survey. In particular, fewer than 5% of 2017 respondents reported conditions as being "worse" or "much worse" than those of a year earlier, as compared with approximately 20% of 2016 respondents who rated conditions that way. In addition to asking both coatings manufacturer and supplier respondents to compare overall current economic conditions to those their companies faced one year ago, the survey also asked respondents to look back two years and provide their views as to how they perceived current conditions in comparison to two years ago (2017 vs. 2015). As Figure 6 shows, while a large majority of suppliers reported that current conditions have improved over two years ago, half of manufacturers agreed, while half reported conditions were about the same or worse. This outlook is somewhat different than the responses to this question in 2016, in which manufacturers and suppliers answered this question in much the same way.

Companies were also asked to report their company’s current production volumes versus those of a year ago (with suppliers specifically asked to consider only that portion of their output produced for their coatings industry customers). Responses again generally showed solid year-over-year growth, with suppliers expressing a noticeably more positive view on this topic. As shown in Figure 7, more than 80% of this year’s supplier respondents reported increases in current production volumes over those of a year ago, while fewer than half of manufacturers reported production growth exceeding 5% during the same timeframe. These manufacturer responses were noticeably less positive than the comparable responses in the 2016 survey, in which approximately 60% of manufacturers reported growth in excess of 1% (Figure 8).

**FUTURE EXPECTATIONS REMAIN OPTIMISTIC**

Survey respondents were asked to provide their current projections for their company’s sales (both in dollars/value and gallons/volume) for 2018 as compared with 2017. In this year’s survey, while both manufacturers and suppliers predicted sales growth for their own firms over the next year, both supplier and manufacturer views for their companies in 2018 were relatively bullish, with virtually all suppliers seeing their company’s sales growing in 2018, along with the majority of manufacturers (Figure 9). Note that Figure 10, which shows the comparable projections made by respondents a year ago, is very consistent with the current production levels reported in Figure 7.

As has traditionally been the case in this survey, respondents showed slightly less optimism about the industry as a whole than for their own companies. Although participants predicted a slightly lower level of growth for the industry than they did for their own firms, they still see a relatively strong level of industry growth. Over two thirds of respondents foresee the industry growing overall at a rate between 2% and 5% (and nearly 20% of respondents anticipate industry growth exceeding 5%), as shown in Figure 11. This is a slightly more optimistic forecast than last year’s survey; when almost 40% of respondents predicted flat sales growth or declining sales.
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This year’s respondents were somewhat more positive about current conditions than their 2016 counterparts. As shown in Figure 5, respondents in this year’s survey (2017) viewed current economic conditions more favorably than did respondents in last year’s (2016) survey. In particular, fewer than 5% of 2017 respondents reported conditions as being “worse” or “much worse” than those of a year earlier, as compared with approximately 20% of 2016 respondents who rated conditions that way.

In addition to asking both coatings manufacturer and supplier respondents to compare overall current economic conditions to those their companies faced one year ago, the survey also asked respondents to look back two years and provide their views as to how they perceived current conditions in comparison to two years ago (2015 vs 2017). As Figure 6 shows, while a large majority of suppliers reported that current conditions have improved over two years ago, half of manufacturers agreed, while half reported conditions were about the same or worse. This outlook is somewhat different than the responses to this question in 2016, in which manufacturers and suppliers answered this question in much the same way.

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FUTURE EXPECTATIONS
REMAIN OPTIMISTIC

FIGURE 5—Same question as Figure 4, all 2017 respondents vs all 2016 respondents (combined).

FIGURES—Comparison of 2017 vs 2015 economic conditions.

FIGURE 7—Company’s current (2017) monthly production levels (by volume) compared with a year ago.

FIGURE 9—Current projections of own company’s sales (dollars or value) for 2018 vs 2017.

FIGURE 10—Current projections of own company’s sales (gallons or volume) for 2018 vs 2017.
Macroeconomic and other threats to the overall U.S. economy remain a concern to respondents. Suppliers saw a Chinese recession as a major concern, while manufacturers highlighted the risk of an "asset bubble," while both groups cited the risk posed by a Federal Reserve Board rate hike, along with federal debt levels.

Responses regarding challenges and risks to their own company always provide interesting insight into the respondents' views about the year ahead. Suppliers and manufacturers were both presented with the same list of such challenges and risks, and interestingly, their perspectives varied a great deal, as demonstrated in Figures 13 and 14. In 2016, manufacturers expressed the highest level of concern about regulatory pressures, but in this year's survey, raw material pricing was the most frequently cited concern, noted by nearly all respondents. For suppliers, the greatest concern involved supply chain issues, as the largest numbers of respondents cited feedstock shortages and the inability to fill customer orders.6

6 In this year's survey, a significant number of respondents reported that they are or would be unable to fill orders due to supply chain issues, regulatory pressures, or a lack of raw materials.

**MAJOR ECONOMIC INDICATORS FOR COATINGS DEMAND**

The survey respondents were asked to provide their outlook for three key markers of coatings demand: new home construction, existing home sales, and commercial property maintenance. Respondents generally foresee moderate growth (in line with the forecasts noted in the introduction to this article), with two-thirds or more seeing growth in the year ahead.

The AICA's respondent forecast for manufacturing activity was also very similar to consensus forecasts, with the AICA group generally predicting moderate growth in durable goods manufacturing, while the mean forecast for motor vehicle production would indicate that sector will be flat in 2018.

**FAIL HURRICANES**

As this survey was fielded, the United States was still trying to evaluate the impact of Hurricanes Harvey and Irma, while Hurricane Maria had not yet struck Puerto Rico. Respondents were asked to provide their views on the impact of the storms on the industry.

Specifically, respondents were asked whether:

- Weather events, including Hurricane Harvey, will have little or no impact on the coatings industry.5

5 Respondents who selected this answer were asked to note which state.

**FIGURE 15—Projections for company's sales (dollars or value) for 2017 vs. 2016 (2016 survey).**

**FIGURE 16—Top risks to company's financial well-being over the next 12 months (manufacturers).**

**FIGURE 17—Top risks to company's financial well-being over the next 12 months (suppliers).**
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4 In this year's survey, a significant number of the 174 survey respondents (70%) reported that one or more suppliers they use were put on allocation or ACA/COMOA backlog, and in some cases, respondents reported that this resulted in inability to fulfill orders or required distribution delays across product lines.

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4 Respondents who selected the answer were asked to select any others.

**FIGURE 13**—Top risks to company's financial well-being over the next 12 months (manufacturers).

**FIGURE 14**—Top risks to company's financial well-being over the next 12 months (suppliers).

**FIGURE 15**—ACA survey forecast for housing and construction (49 respondents).

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**FIGURE 12**—Current projections of overall coatings industry sales (dollars/value) over the next 12 months (49 respondents).
EXPANDING HORIZONS

After completing the NACE CP course, I have a better understanding of cathodic protection systems on offshore platforms. I've used this information to assist me in deciding on inspection frequency during a mini-project as the CP focal point. The NACE CP course helps me as the coating focal point at Sarawak Asset in determining and specifying required surface preparation and paint applications.

- Arif Sukur, NACE CP Level 2, CPI Certified, Inspection Engineer at Sarawak Shell Bhd

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