

ECONOMIC CENSUS

Coatings Market Trends: Is the Industry Back on Track?

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After at least four consecutive years of declining volumes, the U.S. Census MA325F report (Paint and Allied Products) reveals that 2010 showed the first year-over-year (YOY) growth in both value and volume for the coatings industry since 2007 (see Figure 1). The value of shipments in 2010 rose \$1.289 billion (7.70%) on a 5.87% increase in total gallons shipped (up 64 million gallons).

Coatings demand is broadly reflective of the economy as a whole, and is heavily influenced by demand generated by such things as construction

and the manufacturing of durable goods. In terms of overall economic activity, however, the average of the GDP figures for the private goods-producing industries and durable goods manufacturing appear to most closely mirror the economic fortunes of the coatings industry during the past four years, as shown in Figure 2.

Drilling down into the major categories, it is clear that much of the increase in the value of shipments was due to a particularly strong bounce-back in OEM coatings, a category that had suffered disproportionately in the past few years. Looking at year-over-year changes for each category (Figure 3), the strongest was OEM coatings, which gained nearly 19% in value of products shipped over 2009.

Figures 3 and 4 show that OEM coatings suffered YOY declines for four straight years in gallons shipped (three years in terms of value, as a result of a small increase in value of shipments in 2006). This is clearly a product of the decline in production of durable goods (particularly in the transportation sector) during this timeframe, as shown in Figure 4. During the period leading up to the onset of the recession in 2007, the three key indicos (manufacturing, durable manufacturing, and motor vehicle/parts production) were relatively flat, a trend reflected in flat OEM sales.

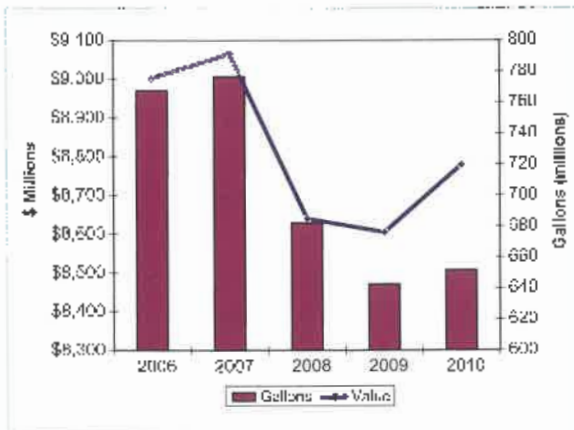


Figure 1—Year-over-year growth for coatings (2006–2010).

However, as the recession began in 2007 and then deepened in 2008 (Figure 5), OEM coatings volume declined. In the aftermath of the financial crisis that took place in the autumn of 2008, the decline in key manufacturing indicia accelerated. Particularly hard hit was the motor vehicle industry, whose travails of the in the latter part of the past decade are well known, and which culminated in the managed bankruptcies of GM and Chrysler. Production levels in this sector fell by at least half from the 2007 baseline during much of 2009 (green line, Figure 5), and were accompanied by a dramatic decline in the number of new car and light truck assemblies completed, which fell from a roughly 12 million/year level to below 4 million/year during the depths of the 2007-2009 recession (Figure 6).

Looking at individual OEM coatings segments, we can see that the rise in the OEM category was broad, but was concentrated in certain segments. For example, as shown in Figure 7, the largest, as well as strongest, performing segment was the transportation coatings markets, while the weaker categories in terms of growth (albeit positive) were metal building products, furniture coatings, and wood substrates. Along with the transportation categories, appliance coatings and container and closure coatings were among the stronger performers.

Architectural coatings also showed increases in 2010 over 2009, but the improvements were more modest than those for OEM coatings, reflecting the continued problems in the construction markets. The decline from the mid-decade construction boom continues, with the Census measure "value of construction put in place" falling by over one-third from its peak. As shown in Figures 8 and 9, however, the loss of value is seen most strikingly in private construction, as well as in the residential segment. The residential segment, which dominated the construction boom years, has lost more than half its value when measured from its March 2006 peak. The continued robustness of the nonresidential construction segment is reflected in part in the Census data for industrial maintenance (IM) coatings, which although categorized as special purpose coatings, are clearly influenced by construction. IM coatings showed an increase of 7.3% in gallons and 10% in value over 2009.

Special purpose coatings showed an overall increase in both value (7.8%) and volume (6.1%) over 2009, with strong

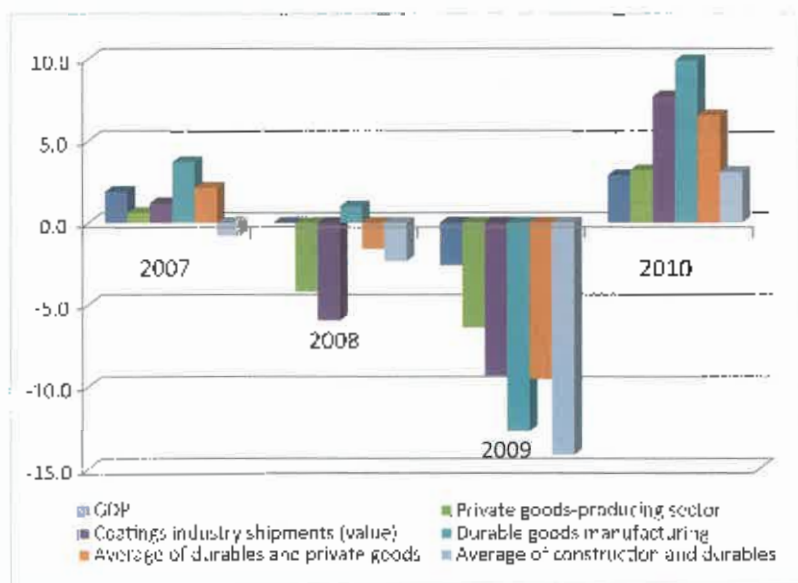


Figure 2—Coatings shipments as contrasted with key GDP indicia.

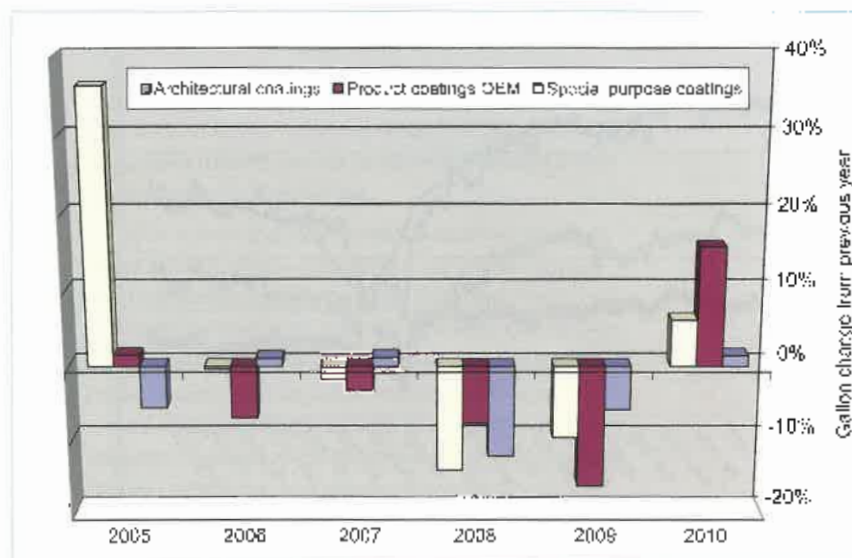


Figure 3—Volume of coatings products shipped (2005-2010).

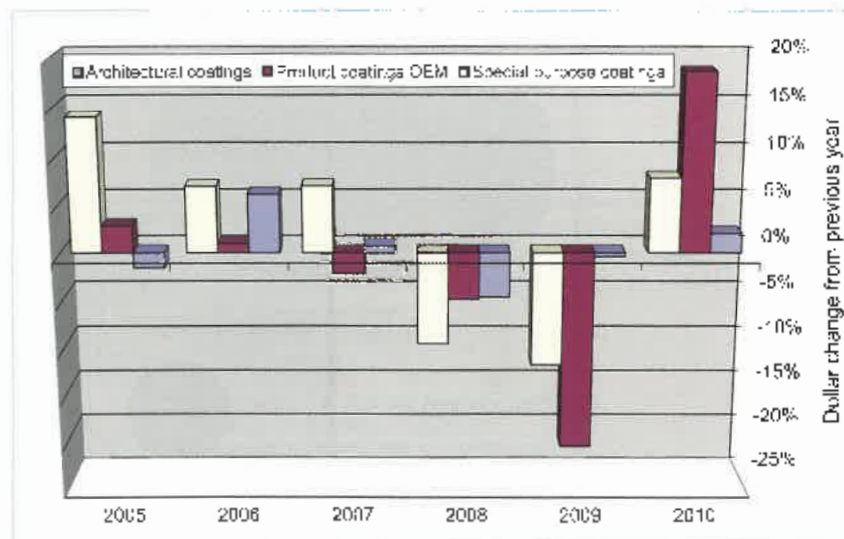


Figure 4—Value of coatings products shipped (2005-2010).

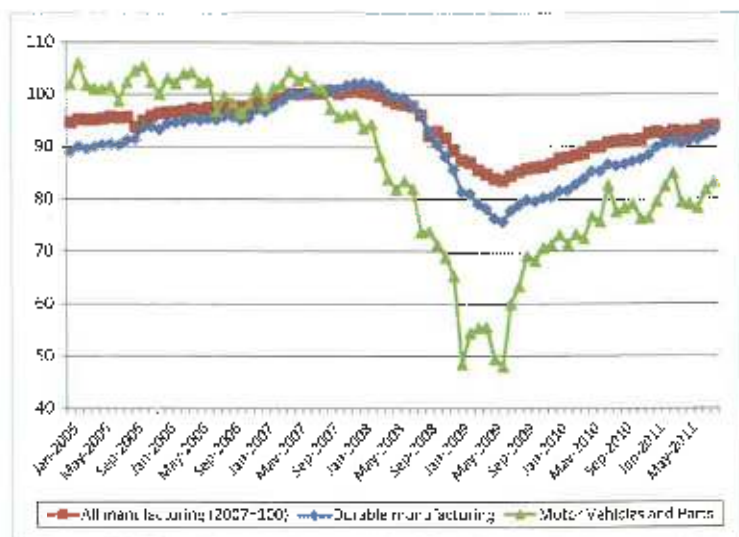


Figure 5—Trend lines of three key manufacturing indices (January 2005–May 2011).

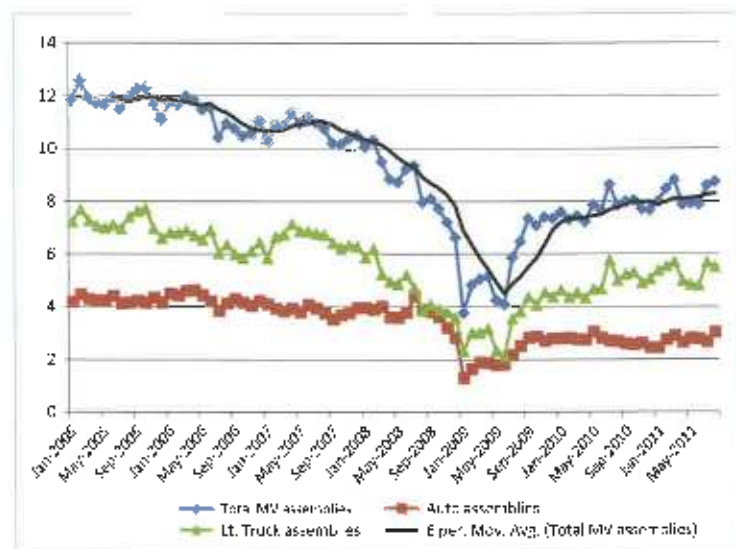


Figure 6—U.S. Motor vehicle assemblies, 2005–2011. (millions of builds, SAA3).

showings not only in IM coatings, but in auto refinish (up 6.5% volume and 7.2% value) and traffic marking paints (up 9.3% in value). The relative sizes of these segments are shown in Figures 10 and 11. These data make clear that auto refinish is by far the highest value segment in the special purpose category, accounting for over half the value generated in this segment.

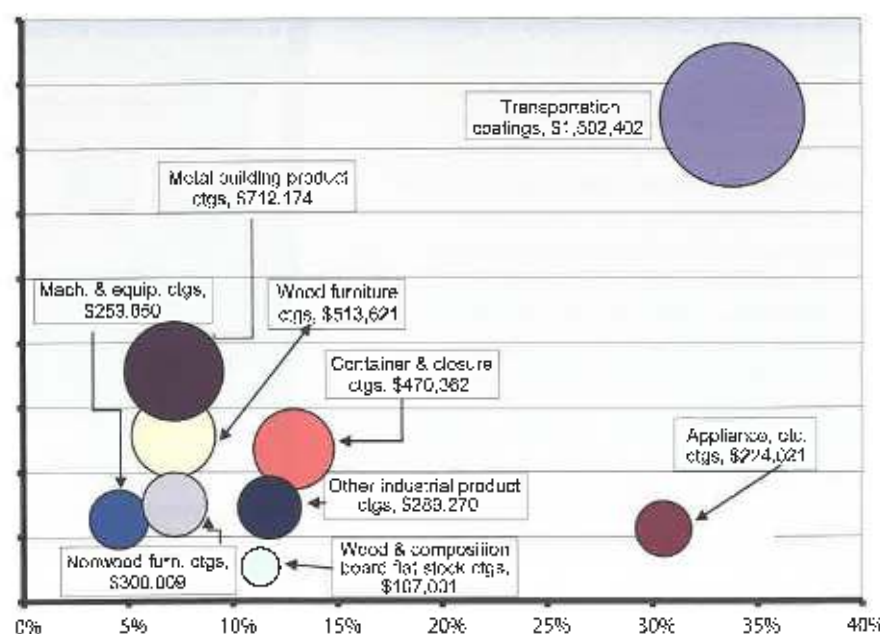
The Census typically revises prior year data to reflect changes in data available to it, but the 2010 Current Industrial Reports are marked by a larger than normal level of corrections and adjustments, including an adjustment of nearly 150% in exterior solventborne architectural coatings. Discussions with Census staff revealed that this level of revision is mostly attributable to some significant corrections that were made in certain categories, including an allocation of products to the incorrect category by a large manufacturer. These corrected categories, along with the level of revision, are shown in Figure 12.

PROPOSED DISCONTINUATION OF THE CURRENT INDUSTRIAL REPORTS

Given the insight into the coatings industry that these reports clearly provide, it is unfortunate that the Obama Administration's budget submission for 2012 has proposed to eliminate the long-standing Current Industrial Reports program. The specific language in the budget indicates that "the [Fiscal Year] 2012 Request includes a decrease of \$4.0 million to terminate the Current Industrial Reports Program to fund higher priority programs."

The proposed budget contends that Census will continue to measure the manufacturing sector through other current program data collection efforts

Figure 7—Recent performance of individual OEM coatings segments (2010 vs. 2009).



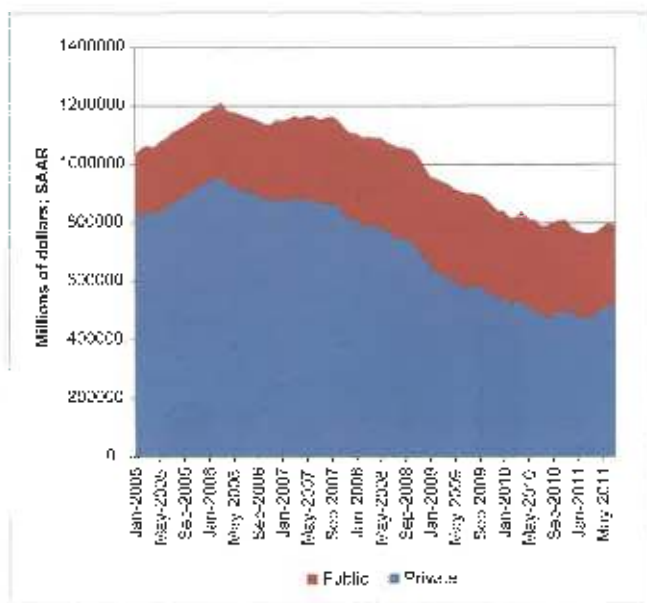


Figure 8—Public vs. private loss in construction value (January 2005–May 2011).

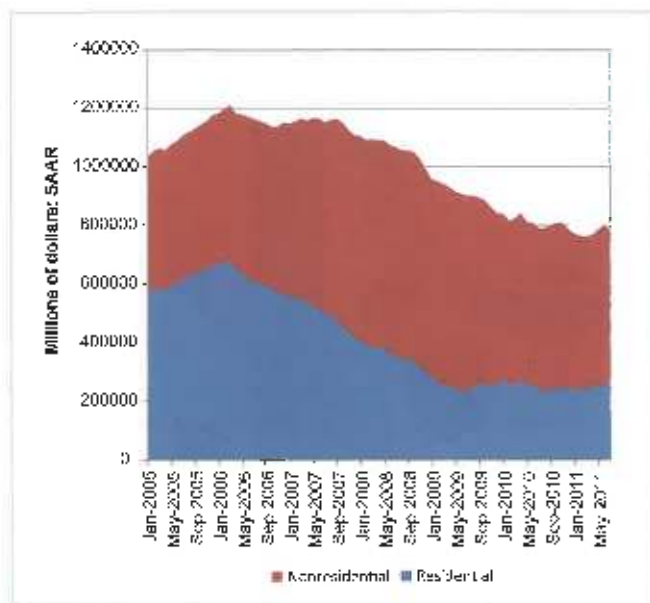


Figure 9—Loss in construction value, nonresidential vs. residential (January 2005–May 2011).

such as: the Annual Survey of Manufacturers (ASM); the Monthly Manufacturers' Shipments, Inventories, & Orders (M3); the Quarterly Financial Report (QFR); the Annual Capital Expenditures Survey (ACES); and other products. However, these reports do not provide the level of detail that the Current Industrial Reports program provides, resulting in the substitution of less frequent, less detailed data and, ultimately, less reliable economic estimates.

This proposed termination will affect monthly, quarterly, and annual reports that collect, analyze, and distribute current data on 1,800 of the approximately 7,800 total manufactured products, as well as a number of key agricultural commodi-

ties, including the quarterly (MQ325F) and annual (MA325F) reports on the paint and coatings industry discussed in this article.

ACA is working closely with a number of other affected industries—including a variety of agricultural associations, the ball bearing manufacturers, the Fertilizer Institute, and the Chlorine Council—in an informal coalition seeking to reverse the proposal to discontinue these reports. ACA and other affected associations, including the NAM, met with Assistant Secretary for Manufacturing and Services Nicole Lamb-Hale to express concerns about the adverse effect on manufacturing that will result from the discontinuation of these reports.

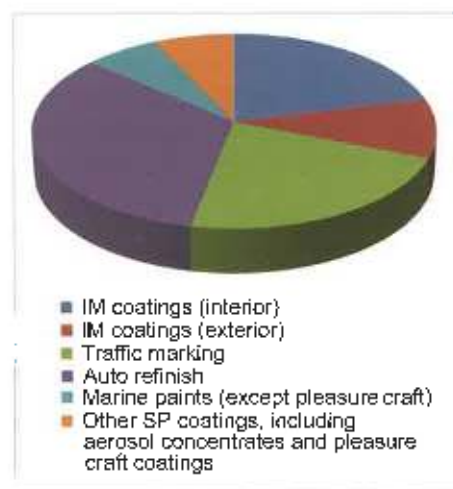


Figure 10—Special purpose coatings segment (2010 volume).

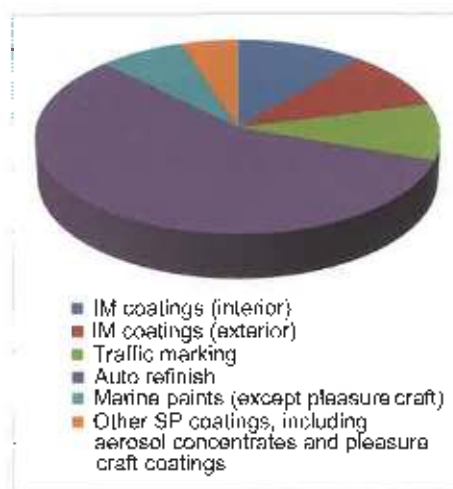
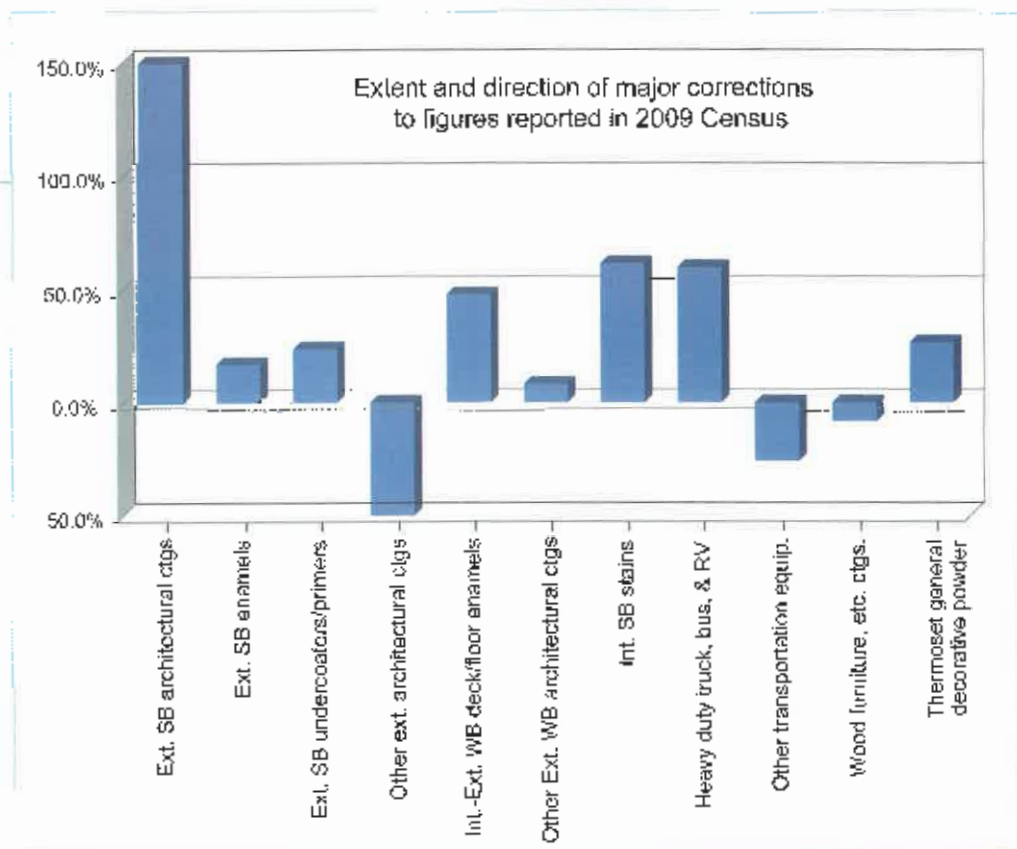


Figure 11—Special purpose coatings segment (2010 value).

Figure 12—Corrections in 2010 MA325F Current Industrial Report.



ACA also met with a number of key lawmakers, including members of the House and Senate Appropriations Subcommittees on Commerce, Justice, Science, and Related Agencies, to seek support for continuing these reports. As part of these advocacy efforts, ACA has met with or contacted staff for Representatives Frank Wolf (R-VA) and Jo Bonner (R-AL), the Chair and Vice Chair of the House Appropriations Subcommittee, as well as Sen. Ben Nelson, a member of the Senate Appropriations Subcommittee. ACA worked with Rep. Bonner's and Sen. Nelson's offices to develop a series of detailed questions on the proposed program discontinuation that were submitted to the

Secretary of Commerce, who has since responded to the Committee. However, in light of significant additional budget cuts the House Appropriations Committee has imposed on Census, the Committee leadership declined to direct Census to continue these reports.

While there is a possibility that these reports will continue, the prospect is not good. Given that, details on the coatings industry and its components will likely become more difficult to ascertain in the future. There will be other ways to benchmark for industry participants, but they are not likely to be as insightful as the Census has historically been.

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