Architectural Coatings Q3 2020: DIY Demand Continues to Grow – PRO Market Starts to Recover After Slow Q2
Forecast Based on Data through September 30, 2020

Introduction

The American Coatings Association (ACA) has collaborated for many years with Decision Metrics, a consulting firm with extensive expertise in the coatings industry and in forecasting, to develop a predictive model that attempts to size the architectural coatings market based on various known drivers of demand. These include such things as existing home sales data published by industry groups such as the National Association of Realtors; current government statistics, such as construction figures; and historical data, including the discontinued Census Bureau MA325F report on paints and coatings shipments. The model seeks to measure the current market, based on historical data collected by the government and by industry groups.

YTD 2020 at 9/30/2020: Rapid recovery in Q3 after declines in Q2 and housing market relatively unaffected by Q2 overall economic decline

- While GDP and employment took a significant hit from the pandemic in Q2 2020, GDP appears to have bounced back quickly in Q3, and unemployment is slowly coming down
- Housing starts – initially expected to drop off to near-zero during the pandemic shutdown period – declined only 10%, and new starts are back up in Q3 2020
- While existing home sales were negatively impacted from the restrictions in place in Q2, the decline was not as severe as expected nor originally forecast, and growth returned rapidly in Q3

Quarter	US GDP Growth SAAR	Unemployment Rate	SFU Housing Starts % Change vs 2019	Existing Home Sales % Change vs. 2019
2020-Q1	-5.0%	3.8%	2.0%	5.5%
2020-Q2	-31.7%	13.0%	-10.5%	-18.5%
2020-Q3*	+20% to +28%	9% to 10.0%	5.0%	9.2%

Estimates for final Q3 from National Association of Realtors (NAR), Mortgage Bankers Association, Fannie Mae. Q1 & Q2 actuals from U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, NAR

DIY Market: Home Improvement Retail Market Up 25-30%

- Home Depot reported 25% comp store sales increase (U.S. stores) for Q2 (three months ended August 2, 2020) and 15.9% overall net sales growth for six months ended 8/2/2020 (https://ir.homedepot.com/financial-reports/quarterly-earnings/2020)

- Lowe's reported 35.1% comp store sales increase (U.S. stores) for Q2 (three months ended July 31, 2020) and 21% overall net sales growth for six months ended 7/31/2020 (https://ir.homedepot.com/financial-reports/quarterly-earnings/2020)

Executive Summary: Architectural Coatings Market Growth 2020 by Quarter

The forecast for 2020 continues to be revised upward due to the continued strength of DIY market and the relative "non-impact" of the COVID-19 pandemic on the housing market.

	Forecast at 7-1-2020		Forecast at 10-1-2020	
Quarter	Coatings Volume (M Gallons)	% Change vs. Prior Year Same Quarter	Coatings Volume (M Gallons)	% Change vs. Prior Year Same Quarter
2020-Q1	194.6	2.2%	194.6	2.2%
2020-Q2	231.9	-8.9%	249.3	-2.1%
2020-Q3	202.3	-9.6%	226.7	1.2%
2020-Q4	134.5	-13.8%	152.9	-2.0%
2020 Year	*763.3*	*-7.5%*	*823.5*	*-0.2%*

Forecasts for 2020 are changing frequently as new data becomes available and the market reacts to the COVID-19 crisis impacts. Fannie Mae, Mortgage Bankers Association and National Association of Realtors all provide forward-looking forecasts of housing data and economic trends and have published September final results for Q2 2020, all of which are more favorable compared to April & June estimates for the quarter. The table below shows the Q2 2020 economic indicators as forecast in April 2020, June 2020, and final actual data as reported in September 2020.

Estimate/Forecast of Q2 2020 % Change vs. Q2 2019 for Key Economic Indicators
As Published April 2020; Revised June 2020; and Revised/Finalized September 2020

Q2 2020 v 2019	Fannie Mae			Mortgage Bankers			Natl Assoc Realtors		
Report Date →	Apr'20	Jun'20	*Sep'20*	Apr'20	Jun'20	*Sep'20*	Apr'20	Jun'20	*Sep'20*
GDP	-25.3	-37.0	*-31.7*	-12.9	-34.5	*-31.7*	-15.3	-30.0	*-32.9*
Existing Home Sales	-29.1	-22.1	*-18.5*	-8.0	-10.4	*-15.4*	-39.0	-21.6	*-18.5*
New Home Starts	-17.9	-9.1	*-10.7*	-4.1	-15.3	*-15.3*	-40.7	-16.5	*-10.7*

GDP decline ended up at the -32% level as expected, but existing home sales finished Q2 in a much better position than expected, at an 18.5% decline.

Construction starts for single-family unit homes were initially expected to fall by as much as (40%) in Q2 2020, but now the data indicates that new home starts were only down about 11%.

Commercial construction projects that were underway in Q2 2020 appear to be continuing to completion, but new commercial projects have dropped off for all building types except warehouse. For 2020 overall, most forecasts (Dodge, AIA) indicate a 10-15% overall decline in non-residential construction value completed. While some sectors will recover in 2021, key segments including office and retail will continue to decline another 5-8%.

Architectural Coatings Demand Forecast: U.S. Total – 10-1-2020 Update

The forecast for architectural coatings demand, in gallons, is based on leading economic indicator data. The estimate for 2020 is significantly higher than originally forecast due to the surge in DIY demand that appears to be sustaining through Q3 2020 and into Q4. The PRO market decline in maintenance business is partially offset by residential new construction growth and growth in residential repaint as homeowners continue to invest in home improvement.

Table 1: Annual Forecast for Architectural Coatings Market Demand (in millions of gallons)

Year	Forecast at 07-01-20		Forecast at 10-01-20	
	Architectural Gallons	Growth to Prior Year	Architectural Gallons	Growth to Prior Year
2018	815.2	1.6%	815.2	1.6%
2019	824.9	1.2%	824.9	1.2%
2020	763.3	-7.5%	823.5	-0.2%
2021	817.4	7.1%	831.3	0.9%

Source: ACA Model; based on data through 9-30-2020

The 2020 projection assumes that home sales and new home starts continue to grow in Q3 and Q4 even in a soft economic market with high unemployment and continued concerns about COVID-19.

Market Gallon Estimate by DIY-PRO Segments, Annual for 2019-2021

The 2020 projection shows growth in DIY, based on current trend on spending on home improvement, and decline in PRO resulting from reduction in business investment, lower maintenance work due to closed businesses or limited access to facilities, and decline in new construction – especially commercial construction starts.

Table 2: Annual Forecast for Architectural Coatings Market Demand by DIY-PRO Segment

Year	US Total		DIY Total		PRO Total		% DIY - % PRO	
	Architectural Gallons (M)	Growth to Prior Year	Architectural Gallons (M)	Growth to Prior Year	Architectural Gallons (M)	Growth to Prior Year	% Gallons DIY	% Gallons PRO
2019	824.9	1.2%	323.0	-2.4%	501.9	3.7%	39.2%	60.8%
2020	823.5	-0.2%	372.8	15.4%	450.7	-10.2%	45.3%	54.7%
2021	831.3	0.9%	355.2	-4.7%	476.1	5.6%	42.7%	57.3%

Source: ACA Model October 2020, based on data through 9-30-2020

The 2021 growth shows continued strong DIY business – but lower than 2020, as homeowners return to work and as the growth surge levels off. The PRO market will recover some of the lost volume from 2020, as construction projects, residential improvements and property maintenance business returns, but commercial maintenance – especially for institutional properties and office and retail properties – will remain well below 2019 volume.

U.S. Architectural Coatings Market Forecast (by Quarter) to Q4 2021

Revisions to the home sales and the DIY growth surge have brought the 2020 quarterly projections up significantly; but the PRO market will continue to face some pressure as maintenance work and new commercial construction decline in Q3 and Q4.

Table 3: Quarterly Forecast for Architectural Coatings Market Demand (in millions of gallons)

	Forecast: Architectural Coatings Gallons (M) (at 10-01-20)	Variance to Prior Year Quarter	Projected Growth vs. Prior Year Quarter			
			Existing Home Sales Model	Residential New Construction Value Put in Place	Non-Residential New Construction	New Single Family Unit Home Starts
Q1 2019	190.4	0.0%	-5.4%	-6.4%	1.9%	-3.4%
Q2 2019	254.6	1.0%	-2.1%	-8.0%	3.0%	-2.2%
Q3 2019	223.9	2.1%	1.9%	2.1%	1.3%	2.3%
Q4 2019	155.9	1.5%	5.4%	3.6%	4.0%	16.4%
2019 Annual	*824.9*	*1.2%*	*0.0%*	*-3.3%*	*2.6%*	*1.4%*
Q1 2020	194.6	2.2%	5.5%	10.5%	4.0%	12.7%
Q2 2020	249.3	-2.1%	-18.5%	-4.2%	-9.5%	-10.7%
Q3 2020f	226.7	1.2%	9.0%	-8.6%	-12.5%	7.0%
Q4 2020f	152.9	-2.0%	5.5%	2.0%	-15.0%	0.6%
2020 Annual	*823.5*	*-0.2%*	*1.0%*	*-0.9%*	*-8.5%*	*3.0%*
Q1 2021f	195.6	0.5%	5.0%	6.5%	-11.2%	1.8%
Q2 2021f	251.8	1.0%	25.8%	10.3%	-5.0%	22.2%
Q3 2021f	226.7	0.0%	1.0%	22.9%	-3.0%	5.1%
Q4 2021f	157.2	2.8%	0.5%	12.8%	-2.8%	5.2%
2021 Annual	*831.3*	*0.9%*	*6.5%*	*12.6%*	*-5.4%*	*9.5%*

Source: ACA Forecast Model for Architectural Coatings, Estimate at 10-1-2020

Note: Home sales used in the model are based on consensus forecast from Fannie-Mae and National Association of Realtors. Forecast for new construction put-in-place (completes) comes from Dodge and AIA. New single family starts forecast is a blended average of Fannie Mae and National Association of Realtors.

Risks to the Forecast

The market dynamics continue to change due to uncertainty related to COVID-19. There may be downstream consequences of unemployment and GDP declines that will have a lagged effect on 2021; but, at the time of this forecast, those factors have very limited impact on the coatings market. The current forecast is based on the most current data available, but will continue to be monitored and updated as conditions evolve.

Contact

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