

Coatings Market: Primed for Growth

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As we talked with coatings industry executives while walking the floor of the American Coatings Show a few weeks ago, it was clear that most industry participants are in the midst of a multi-year period of healthy growth. And for many, the outlook appears even brighter than the recent past. While the industry is not without its challenges – higher raw material costs, for example – we are optimistic that volume growth for most of the coatings industry should remain strong in upcoming years, driven by synchronized GDP growth around the globe and tailwinds in construction and industrial markets.



According to the International Monetary Fund (IMF), GDP growth in North America was 2.3 percent in 2017 and is expected to accelerate to 2.8 percent in 2018 and 2.6 percent in 2019. Construction markets are booming, with housing demand outstripping supply in many markets and industry insiders calling it one of the strongest housing markets they have ever seen.

It is worth noting, however, that the National Association of Home Builders (NAHB) Housing Market Index, a widely-cited indicator of the health of the U.S. single-family housing market, peaked at 74 in December 2017 and tailed off slightly in each month so far this year (last reported at 69 for April). While demand for housing continues to fuel optimism, supply-side constraints, such as increasing construction material costs and skilled labor shortages, as well as late-season winter weather, caused building activity to moderate somewhat in parts of the U.S.

We view these constraints as more transitory in nature, and not a sign of long-term structural issues in the housing market. In fact, the Mortgage Bankers Association projects U.S. housing will start to grow at 6 percent annually through 2020, with remodeling activity also expected to remain robust. Given the predicted strength in the U.S. construction market, we expect sales of architectural coatings and other construction-related products to remain a bright spot in the coatings industry in 2018 and beyond.

Coatings sold into the building and construction market are not the only beneficiary of economic strength around the world. Sales of industrial coatings, such as liquid and powder coatings used to coat appliances, infrastructure, manufacturing equipment and many other types of wood, metal and plastic, tend to move in tandem with industrial production and the overall economy. The U.S. Industrial Production Index hit an all-time high of 107.2 in March, highlighting the incredible economic recovery we have experienced over the last nine years and driving growth in industrial coatings sales.

Industrial coatings demand should continue to be even stronger outside of the U.S., particularly in China. Orr & Boss, an industry consulting firm, estimates that global industrial coatings volume will increase by more than five percent annually through 2020. China, which consumes an estimated 40 percent of global industrial coatings, is a significant contributor, with its GDP growing at projected rates of 6.6 percent in 2018 and 6.4 percent in 2019. While China's 6-7 percent GDP growth is a far cry from the nine percent average seen over the last decade, it continues to set the pace among the world's largest economies and should fuel strong industrial coatings growth in upcoming years.

Speaking of China, one thing that struck me about this year's American Coatings Show was just how many Chinese companies were exhibiting. The sheer number was impressive and a good reminder of how global this industry truly is becoming, and how important it is for all coatings companies – big and small – to think globally when considering their long-term strategy.

From a mergers and acquisition (M&A) standpoint, Grace Matthews believes that ongoing consolidation across the coatings industry will include an increasing element of cross-border activity, as both mid-sized companies and majors look to boost their growth through exposure to China and other fast-growing emerging markets. Longer-term, we think it is likely that some Chinese companies won't just be exhibiting next to U.S. and European companies at the American Coatings Show, but might actually be sharing a booth – a product of M&A.