Asahi Kasei to close several plants in Japan
BASF posts higher profits, cautiously optimistic on 2014
The global paints and coatings market is looking forward to a solid 2014, with broadening growth and stable raw material prices.

Paints and coatings makers, and their suppliers, are optimistic about their prospects for 2014, with economic growth accelerating in the United States and turning positive in Europe, producers and analysts say. Raw material costs—the bane of paint makers’ existences in 2012—were mostly stable in 2013 and are expected to remain that way.

“Overall, we feel good about the world economy, better than we have [in recent years],” says Viktor Sekmakas, executive v.p. at PPG Industries. IHS Chemical expects the global paints and coatings market to grow at about 2–3% in 2014, with differences in growth rates mostly among regions rather than end markets, says Eric Linak, senior principal analyst at IHS. Growth rates should be higher, around 4–12%/year, in emerging markets, with India and China leading the way, Linak adds. “Generally, you can correlate coatings consumption with economic growth,” he says.

Global coatings consumption totaled 43,515 m.t. in 2012, the most recently available data, according to IHS Chemical. Asia posted the strongest growth from 2010 to 2012, with consumption up 13% during that time. Asia now accounts for about 50% of global coatings consumption, which was valued at about $50 billion in 2012, IHS Chemical says.

**North America: Steady as it goes**

The rebound in US automotive and residential construction has buoyed paint makers’ fortunes. Most public paint companies report solid 2013 earnings on the back of continued recovery in these markets. The positive outlook in North America is being reinforced by stable raw material costs and the shale gas boom, creating new opportunities in industrial and protective coatings even as costs decline.

“In the US, producers of architectural coatings are expecting further improvements,” Linak says. Improvement in the housing market is driving this, and IHS expects US
housing starts to total 960,000 in 2013, the most since 2007—although still well below the 1.36 million in 2007, not to mention the 2005 peak of 2.07 million. Those levels, which drove a particularly robust paints and coatings market, are not expected to return in the foreseeable future. IHS says the total US residential construction market will still be below the 2005 high in 2017. This lower number is not necessarily a terrible thing for paint makers, however. “The peak levels of the mid-2000s were overcheated, and most agree that they would rather deal with a moderately growing market than experience a boom-bust cycle,” Linak says.

A moderately growing market is exactly what paint makers in North America are counting on. “The US is a very strong market for us,” says Michael McGarry, executive v.p. at PPG. “We are optimistic that there is going to be continued growth in housing, which is beneficial to a number of our businesses, especially our architectural paint store business.” Construction indexes have been somewhat soft thus far this year, but PPG believes this is mostly related to the unusually cold and snowy winter in much of the United States.

While the residential construction market is rebounding, the automotive sector is expected to be particularly crucial for growth in North America. “The best outlook by far is in automotive,” McGarry says. That market’s adoption of new technologies tends to be faster than in architectural paints, he adds. Dow Chemical, which provides raw materials to paint makers, also finds that “automotive [market] growth is positive,” says Pat Gottschalk, president/performance monomers and coating materials at Dow. US light vehicle production is expected to grow by 4%/year from 2012 to 2017, totaling 10.7 million units in 2013 and 11.8 million units by 2017, according to IHS.

Some challenges remain in North America, however. Commercial construction “is quite spotty,” McGarry says. “You see some pockets of success in the southeast and southwest. We always tell people what we are seeing is the early signs of recovery, but we tend to be on the back end ... [We] are on after the building is up and almost done.” PPG says, “Some of our painters are busier, but it’s not really to the point where we have a full-fledged commercial construction recovery,” he adds.

The industrial coatings market, meanwhile, is mixed in North America. The shale gas boom is bringing industrial operations—especially chemical manufacturing—back to the continent, which is good news for makers of protective coatings. However, other markets, such as packaging, are weaker. “The beverage market has been challenged,” Sekmakas says. “We saw a decline of a couple of percent last year, and, this year, we project to be flat-to-negative in that sector.” Beverage makers are increasingly turning to bottles rather than cans, which still use coatings, but “it is a challenge at this point,” he adds. PPG expects the food sector in the United States to grow by about 1% in 2014, which Sekmakas notes is also fairly soft.

Europe: Turning a corner?

Europe has been a headache, producers say. Recession in many countries, particularly in the south, has ground the construction market almost to a halt and dinged paint companies’ revenues in the region. Many, including PPG and AkzoNobel, have undertaken large, Europe-focused restructuring initiatives, which have helped them to remain profitable. Still, the region has been a drag on the paints and coatings sector, just as it has been a drag on the chemical industry and the global economy as a whole.

Although it is difficult to find anyone who is truly optimistic about Europe, the days of undulating pessimism seem to be mostly past. “In Europe, slow, steady growth is the most likely outcome,” Gottschalk says. “Positive growth is likely, but they still need to work through a lot of issues, and it’s not clear that housing is going to take off anytime soon.”

“I’d say that we feel better, overall, about the economy in Europe,” Sekmakas says. “We see things stabilizing. The fourth-quarter was flat year-on-year ... so that will be the first piece of [recovery].” Like in the United States, PPG anticipates that the automotive market will lead Europe’s paint makers out of recession. “We have been outperforming the industry in automotive,” McGarry says.

In terms of individual countries, the United Kingdom and Germany have improved, “tepid recovery” has taken hold in France and Poland, and southern Europe has stopped declining, McGarry says. “Most of the leading indicators have turned positive,” he adds. Europe produced about 7.2 million m.t. of paints and coatings in 2012 and remains far below mid-2000s peaks after several years of declines, IHS Chemical says.

Emerging markets: China in the lead

While emerging-market economies are not quite hitting the high growth rates of a few years ago, paints and coating makers are still counting on these countries, especially China, to drive growth. “Obviously, China is a big market, and we continue to make efforts to increase our participation there,” Gottschalk says.

The Chinese paint industry is expected to grow by around 8%/year from 2012 through 2017, according to IHS Chemical, despite some slowdown in the overall Chinese economy. Chinese paints production totaled 13.9 million m.t. in 2013, more than double the level of five years earlier, IHS Chemical says. Consumption, at about 14 million m.t. in 2013, is not much higher than production, IHS Chemical says.

Matching these statistics, most paint makers say what they produce in China stays in the country. Thus, growth there is tied to growth in the domestic paint market. “[Automotive, refinish, consumer electronics—as those markets grow, it’s a positive for us,” Sekmakas says. Indeed, the growing Chinese middle class means growth in all kinds of consumer and industrial markets, including cars, industr-
trial products, and home appliances. These markets are expected to give coatings makers a lift even as the market for architectural coatings cools off. Chinese architectural coatings demand grew by 10% year-on-year in 2011, but growth slowed to 7% in 2012 “as the real estate business in China started to mature,” IHS Chemical says. Outside China, emerging markets still mostly present a positive outlook for paint makers, albeit with some darker spots. PPG is very bullish” on Asia outside China, Sekmakas says. Dow and PPG are also counting on growth in the Mideast. Dow anticipates “a high growth rate of consumption there,” according to Gottschalk. In 2012, paints and coatings consumption totaled nearly 2 million m.t. in the Mideast and about 1 million m.t. in Africa, according to IHS Chemical.

The outlook in Latin America is decidedly less optimistic, although it varies by country. The South American paints and coatings market totaled $7 billion in 2012 and was led by the $2.7-billion Brazilian market, IHS Chemical says. The Mexican paints and coatings market, meanwhile, was valued at $1.8 billion in 2012.

Growth in these markets, particularly Brazil, has slowed, producers say. “I think the question of what growth is going to be in Latin America is a bit up in the air,” Gottschalk says. “I don’t think anybody today would believe the growth rate they had in their projections for Latin America five years ago.” PPG is finding that Latin America is “still growing, but not as fast as it used to,” McGarry says. Of the largest Latin American countries, producers are relatively more bullish on Mexico than Brazil, since automotive production in particular continues to expand in the former. “Auto makers and auto parts manufacturers are investing in Mexico due to its proximity to the United States, low labor rates, the Nafta free trade agreement, and minimal language barriers,” IHS Chemical says. Mexico is home to over 1,100 suppliers of car parts, IHS says.

Raw materials stabilize

After a wild ride in 2012, raw materials prices for paints and coatings, particularly titanium dioxide (TiO₂), were mostly stable in 2013. Paint makers expect that trend to continue into 2014. TiO₂ pigment prices fell last year as supply and demand balanced, and paint companies undertook various initiatives to diversify supply and reduce consumption. Propylene prices, meanwhile, are expected to be somewhat volatile in the short term, but the longer-term outlook is brightened by coming propylene dehydrogenation (PDH) plants fed by low-cost shale gas.

“By late 2012, the price escalation had ended for TiO₂,” Linak says. “Acrylic resin prices increased in 2011 due to production problems but have moderated. Most producers reported cost of raw material increases of 3–4% in 2013. We see no major disruptions on the horizon.”

PPG’s overall raw material cost should be “flat to slightly up” in 2014, Sekmakas says. He notes that TiO₂ price increases tend to come into effect during the first half of the year, since painters and paint makers gear up for the busy spring and summer construction season—and that increases have, thus far, not materialized. “If there is any tightness of supply, these would be the times you would see big increases in price coming through,” Sekmakas says. “We had a flat first quarter [for TiO₂ cost] and are not anticipating any increases for the year.”

While TiO₂ supply has loosened, many paint makers continue efforts to diversify supply sources and reduce consumption. PPG has attempted to diversify its supply base by signing agreements with small suppliers in local markets. For example, the company licensed chloride technology to Henan Billions (Jiaozuo City, China), a Chinese TiO₂ maker. PPG has also worked to change formulations to reduce TiO₂ usage, especially moving away from using the material as a filler in paint formulations, Sekmakas says.

For other raw materials, price increases should be manageable. PPG expects propylene prices to “bounce around a bit” this year but still anticipates small cost increases, in the low single digits, for raw materials, Sekmakas says. Meanwhile, investment in PDH and on-purpose propylene “will remove some of the peaks [in prices] for propylene derivatives,” McGarry says. “[W]e think propylene will have less volatility” in the long term, he adds.

Consolidation motivation

Last year in the paints and coatings sector, some large M&A deals—Sherwin Williams’ acquisition of Comex, which is still pending in Mexico; and PPG’s acquisition of AkzoNobel’s North American architectural coatings business—took place. Both of these deals have been valued at over $1 billion. Producers and analysts say consolidation will continue apace in 2014.

“PPG is certainly hungry for more coatings acquisitions,” McGarry says. The company had $1.7 billion in cash at the end of the fourth quarter, and “M&A is a preferred mechanism for growth,” he notes. The global paints and coatings market is still relatively fragmented. The top 10 global producers, including PPG, accounted for just over 50% of worldwide paints and coatings sales in 2012 compared with 30% in 1990, IHS Chemical says. However, that figure is closer to 40% in fast-growing Asia/Pacific.

PPG makes acquisitions to gain access to technology, an example being the company’s recent acquisition of heat-resistant industrial coatings maker Hi-Temp Coatings Technology (Boxborough, MA), or new markets. Valuations are on the rise, however, since M&A in the sector remains attractive and private equity firms have cash and easy access to financing. “Valuations have continued to go up … so that is something we will look at,” Sekmakas says. “Overall, the market will continue to see consolidation, and we’ll see how valuations and private equity activity play out.”

—VINCENT VALK