

GLOBAL OVERVIEW



As the world gets to grips with the upheaval caused by the COVID-19 pandemic, *Douglas Bohn*, Orr & Boss Consulting Incorporated, gives an overview of the global coatings market

The global coatings market in 2020

Like all industries and facets of our life, the global coatings industry has been upended by the COVID-19 pandemic. What started out as a reasonably strong year with modest growth predicted has been transformed into a year with uneven growth throughout the year, affecting both geographical regions and industry segments. Generally speaking, at Orr & Boss we are expecting the overall global coatings industry to show a modest decline of about 2% in volume and 1% in value in 2020 but those overall numbers hide some significant differentials among the various segments of the global coatings industry.

2019 IN REVIEW

Before we move on to what has been happening in the coatings industry in 2020, we thought it would be useful to review the coatings industry in 2019. The size of the global coatings industry in 2019 was US\$155bn in value and estimated to be 41.5Mlit. As **Figure 1** indicates, Decorative Coatings is the largest segment globally at 46% of the value. The next largest segments are General Industrial (GI), Industrial Maintenance & Protective Coatings (IM & PC) and Powder Coatings. The ranking of these segments does vary somewhat by region but Decorative

Coatings is the leading segment in all major geographic regions.

As shown in **Figure 2**, Asia Pacific is by far the largest region in the world. It comprises 46% of the value of the global coatings industry and is nearly twice the size of the next largest region, Europe, which comprises 25% of the value of the global coatings industry.

The global coatings industry in 2019 was one of slow and modest growth. Overall, it was estimated to have grown by 1.5% in volume and 3.3% in value. Most of

the growth in the global coatings market occurred in Asia, which grew at 2.4% volume and 3.3% value growth rate in 2019. Even though it was the fastest growing region in the world in 2019, Asia's growth rate was lower than in previous years - despite good growth occurring throughout the region, trade issues weighed down the economy of China and other countries were also not able to grow as fast as they had been growing.

2020 UPDATE:

As 2020 started, it looked like the global market was in store for another year of modest growth. In January, we were forecasting the global coatings industry to grow by a volume of 2.9% and value of 4.5%. These forecasts were more or less in-line with the global GDP growth expected at that time.

Once the lockdowns began in January in China and then spread to the rest of Asia, it became clear that that our initial forecast was in need of revision. The fast-moving nature of the pandemic has resulted in Orr & Boss changing its forecast for 2020 and beyond several times. Over the last few weeks, our forecasts have settled down and the picture is becoming much clearer.

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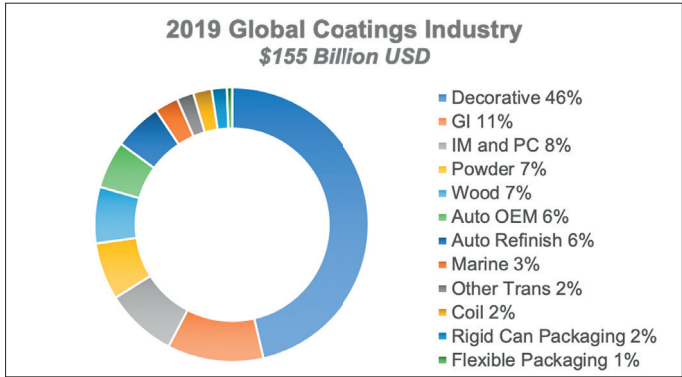


Figure 1. Global coatings industry 2019 by sector

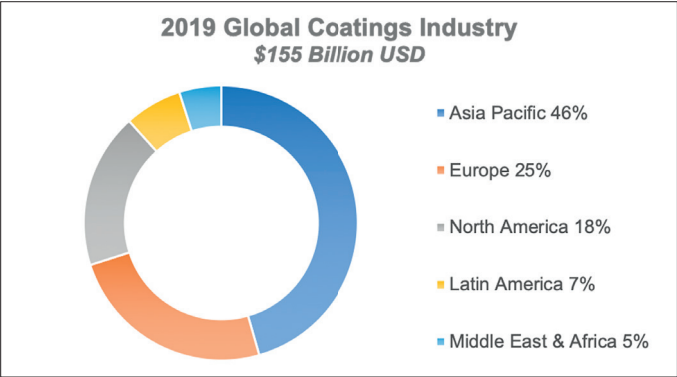


Figure 2. Global coatings industry 2019 by region

Table 1. 2020 Global coatings market – estimate of growth this year by sector and region

	North America		Europe		MEA		Asia		Latin America		Global	
	Litres	Value	Litres	Value	Litres	Value	Litres	Value	Litres	Value	Litres	Value
Deco	1.5%	3.5%	1.5%	3.5%	0.0%	2.0%	-1%	-2%	-5%	-3%	-0.5%	1.6%
Automotive OEM	-20%	-18%	-20%	-18%	-2.5%	-0.5%	-10%	-9%	-10%	-8%	-12.8%	-12.0%
Automotive Refinish	-20%	-18%	-20%	-18%	-2.5%	-0.5%	2.5%	2.5%	-10.0%	-8.0%	-9.3%	-10.7%
Other Transport	-22.8%	-21.6%	-10%	-10%	-2.5%	-0.5%	1.9%	2.0%	-5.6%	-14.6%	-14.6%	-12.6%
Powder	-10%	-8%	-10%	-8%	-2.5%	-0.5%	1.0%	1.0%	-10%	-8%	-1.6%	-0.7%
Wood	-7.5%	-5.0%	-7.5%	-5%	-2.5%	-0.5%	-1.0%	-1.0%	-2.5%	-0.5%	-2.9%	-1.7%
Coil	-12.5%	-10.5%	-12.5%	-10.5%	-2.5%	-0.5%	0.0%	0.0%	-2.5%	-0.5%	-4.2%	-3.9%
Rigid can pkg	2.5%	4.5%	2.5%	4.5%	2.5%	4.5%	7.5%	8.5%	2.5%	4.5%	4.2%	6.5%
Flexible pkg	5%	7%	5%	7.5%	2.5%	4.5%	7.5%	8.5%	2.5%	4.5%	6.1%	8.3%
GI	-10%	-8%	-7.5%	5.5%	-2.5%	-0.5%	2.5%	2.5%	-7%	-5%	-1.0%	2.7%
IM and PC	-10%	-8%	-10%	-8%	-15.0%	-13.0%	-10.0%	-10.0%	-7.5%	-5.5%	-10.4%	-8.5%
Marine	-2%	0%	-2%	0%	-5.0%	-3.0%	0.0%	0.0%	-7.5%	-5.5%	-1.0%	-1.0%
Total	-2.8%	-3.1%	-2.3%	-1.2%	-1.9%	-1.6%	-1.0%	-1.0%	-5.4%	-4%	-1.9%	-1.2%

Overall, our forecast is dependent upon a gradual re-opening of the European and North American economies with the world economy entering a “new normal” phase in Q3 of 2020. The expectation is that Q3 growth will be strong in Europe and North America before settling into a modest growth phase in Q4. Also, the expectation currently is that in 2021, GDP around the world will grow in the 4-8% range, depending upon the country and the region. We are expecting that localised lockdowns will continue to occur but that no broad-based lockdowns will be necessary. Furthermore, we are assuming that no breakthrough vaccine will be developed in the next 6-12 months. If any of these assumptions change, our forecast for the global coatings market will also likely change.

With all that being said, we are expecting the global coatings market to fare slightly better than the overall global economy. We expect a decline of about 1% in value for the global coatings market, whereas the global economy is expected to decline by 4-6% this year. The over-performance of the global coatings industry versus the overall economy is mostly due to strong decorative coatings sales, especially in North America and Europe.

However, the performance of each of the major segments varies significantly. Even within a segment, performance varies company by company. One of the most striking things about this global recession and the initial recovery is the extreme variability in sales performance among companies participating in the global coatings market. During interviews that we have conducted with executives at major and regional coatings companies

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around the world, we are struck by how much variability there is in performance, even within the same segment. Some companies have reported sales going up during the pandemic and others serving similar markets and geographies have reported a sales declines.

Much of this is dependent upon a company's specific customers and distributors. If your customer base was forced to close or if the geography that you serve was more impacted by the lockdowns, your sales will likely have declined more. Since the lockdowns varied by country (and sometimes even within the country) and the industries and companies that were deemed essential varied, it has led to uneven results across the globe.

Taking into account the unevenness of the coatings markets, there are certain patterns that have emerged. Generally, decorative coatings markets have performed better. In some countries around

the world, we expect that the decorative coatings market will actually increase this year. In Europe and North America, DIY decorative coatings sales have surged forward as home improvement projects became popular while consumers were in lockdown in their homes. In both Europe and North America, we expect that DIY paint sales will increase by about 10% this year.

Also driving the decorative coatings market, are the very low interest rates on residential housing, which has resulted in a pick-up in housing sales in some countries, most notably the United States.

In contrast, coatings companies that supply the global automotive coatings market have struggled. Automotive assembly plants have largely closed down and that has led to a significant decrease in demand. Starting in late May and June, auto assembly plants have started to re-open and we think automotive sales and demand will start to increase going forward.

The other non-decorative and non-automotive coatings segments are mostly expected to decline in the 10-15% range this year. The exception to this is packaging coatings, which is showing a significant uptick in demand as restaurants have closed and many people had to cook more at home, which has led to a surge in consumer packaging of goods globally. This has led to an increase in sales of both can coatings, as well as flexible packaging coatings. **Table 1** provides Orr & Boss's estimate by region and segment for growth this year.

In China, which has experienced the effect of the pandemic sooner, we estimate that the coatings market declined by

30% in Q1. Similar to the other markets of the world, demand is uneven. For the entire year, we expect demand to be flat in decorative coatings and down about 10% for automotive coatings. For other markets, we expect demand to increase at a modest rate. Given this slow or no growth scenario, we expect there to be more pricing pressures in the Chinese coatings market. The pricing pressures will be increased by the expected fall in raw material prices this year as oil prices and paint and coatings raw material prices have declined. Overall, we expect the Chinese coatings market to be close to flat with 2019; although of course, each market segment will vary as with the rest of the world.

TRENDS GOING FORWARD

The pandemic is likely to have several medium and long-term impacts on the paint market. Even if a vaccine is found, some of these trends will persist.

- Consumers will likely not travel to the extent that they did before the pandemic. This means that people will be staying at their own homes for longer periods of times and will seek to upgrade their homes to make them more comfortable. This should lead to a better DIY and residential repaint market globally.
- Antiviral and Antimicrobial paints will grow. This is already happening as the demand for antiviral and antimicrobial paints has skyrocketed as a result of the pandemic; some of these paints have seen four to five times demand increases this year. We expect that the long-term sustainable demand for these products will be at least twice that of pre-pandemic level.
- Traffic patterns in China and elsewhere in Asia are returning to pre-pandemic levels as people shy away from using public transportation options. This may lead to stronger automotive sales going forward. It is unlikely that this will happen this year but once the global economic recovery shows that it can sustain itself, we would expect automotive sales to return to pre-pandemic levels or perhaps even exceed them. This will aid growth in the automotive OEM coatings market.
- Automotive refinish coatings will be helped by the expected decrease in the use of public transportation but will be hurt by the increasing number of people who work from home and people who do not travel as much. Overall, we would expect this market to decline slightly from pre-pandemic levels over

the longer term as people opt not to travel as much.

- The Agricultural, Construction and Earthmoving (ACE) coatings market may be poised for good growth in 2020, 2021 and beyond. In China, we expect ACE to grow in 2020 as the government has announced several large infrastructure initiatives. In the United States and Europe, there is discussion among the governments of significant infrastructure spending to stimulate the economies. If these plans come to fruition, it would help the ACE coatings market. Industrial Maintenance and Protective Coatings would also be helped by infrastructure spending but this increase would likely be offset by decreased demand from the oil & gas segment.
- There are other market sub-segments that may be poised for growth as well. Some niche coatings markets that will do well this year and next year are Recreation Vehicles (RVs) in North America, coatings for bikes, fishing rods and poles and other outdoor sporting and recreational equipment.
- There may be opportunities for growth with green or sustainable coatings as some of the major governments have been discussing whether to increase environmental regulations. The pandemic is focusing society on its interactions with the environment and there are some that think that more sustainable coatings may be desired around the world. A good example of this is the 'oil to powder' initiative that the Chinese government is pursuing, which is expected to increase demand for powder coatings going forward.

CONCLUSIONS

The global coatings industry was valued at US\$155bn in 2019. It is expected to decline by about 1% in value this year but the segment growth rates will vary. Automotive and other industrial coatings segments will be hit the hardest, while decorative and packaging coatings will likely offer some growth opportunities this year.

It has been a difficult year so far for all of us on a personal and professional level, but at Orr & Boss we believe that we are nearing the end of the most difficult time in the economy and in broader society.

Now is the time to start to considering the post-pandemic future and positioning your company for success this year and beyond.

Many of the issues and trends discussed in this article will likely persist for years to come. We believe that decorative and

packaging coatings will continue to be strong segments. We also believe that although automotive is having a difficult year, it may do better in the post-pandemic economy. Other segments may offer promise too, such as ACE and infrastructure protected coatings, as well as antiviral and antimicrobial paints.

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