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Excerpts from… "Seeking Windows of Opportunity"

By Esther D'amico

North American and European paintmakers are optimistic that 2004 will be better than the last several years, but they are not taking any chances. Many paintmakers including DuPont and ICI are restructuring to cut costs and streamline operations amid high energy costs, low prices, and a sluggish economy. Most are seeking opportunities to improve growth by adding services, or zeroing in on potential high-growth niches. Analysts say growth in the industrial sector, particularly for automotive OEMs, is hurting due to lacklauster demand. Growth in the architectural sector is strong by comparison, although that has largely been offset by high energy and raw material costs, analysts say.

"We're begining to see a recovery. People I've spoken with in the last couple of months say they've seen three consecutive months of growth, compared to the same period in 2002," says Dan Murad, president of consulting firm The ChemQuest Group (Cincinnati). "That suggests we've hit bottom, and are beginning to go up."

The architectural sector is the brightest spot on the paintmaker's palette, boosted by low interest rates and strong new home construction. About 30% of architectural paints go into new home construction, and about 70% are "tied into" resale of homes, Murad says. "Both of those have had record or near-record growth rates in the last few years," he says. "Top-line growth will stay consistent for architectural paintmakers, unless interest rates go higher," he adds. "But these paintmakers haven't been able to take that top-line growth down to their bottom lines because of raw material cost increases."…………..

Meanwhile, paintmakers with industrial coatings operations have been hit hard by a drop in production output in the U.S. manufacturing sector, Murad say. The sector has only started to turn around in the last couple of months, he says.

"If the manufacturing sector is operating below capacity, that suggests it's not investing in new capital, which means that we're not going to be selling paint to repaint that capital," Murad says. However, the industrial sector is expected to grow as capacity utilization rates increase for producers of durable goods, including automotive OEM manufacturers, he says.

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Industries that have lost market share to China include the mid-priced, labor-intensive furniture industry, and “job shops,” the latter of which fabricates metal parts and components and paints them to specification for OEM suppliers, Murad says. “U.S. job shops have lost position to China as OEM facilities in China are building their own job shops that are ultra-modern, with equipment that is very high speed, and highly automated. Combine that with low labor costs, and you have efficiency,” he says. …………………………

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