

# STATE OF THE U.S. COATINGS MARKET

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As the year 2004 comes to an end, it appears the US coatings market will have another mediocre showing with very little growth over 2003. Unfortunately, the industry will continue to face challenges with substantial headwind heading in to 2005.

At press time, industry data for the first half of 2004 showed the overall coatings industry declining approximately 0.7% in volume and 0.7% in value compared to first half 2003. The ChemQuest Group, a management consultancy headquartered in Cincinnati, OH, estimates that for the full year, the industry will improve slightly showing a very slight growth of volume and a very slight decrease in value.

This performance has not been even across the industry, with a stark contrast among the three major market segments:

**United States Coatings Market**

		1st Half 2004		Full Year 2004		2005	
		Actual	% vs 2003	Forecasted	% vs 2003	Forecasted	% vs 2004
<b>US Coatings Market - Total</b>	<b>\$ (million)</b>	<b>8,186</b>	<b>-0.7%</b>	<b>16,102</b>	<b>-0.1%</b>	16,317	1.3%
	<b>gals (million)</b>	<b>421</b>	<b>-0.7%</b>	<b>1340</b>	<b>0.1%</b>	1344	0.3%
Architectural	<b>\$ (million)</b>	4,030	8.9%	8,236	8.0%	8,648	5.0%
	<b>gals (million)</b>	421	6.2%	828	6.0%	857	3.5%
OEM	<b>\$ (million)</b>	2,492	-13.4%	4,626	-12.0%	4,348	-6.0%
	<b>gals (million)</b>		-13.5%	340	-11.5%	315	-7.5%
Specialty	<b>\$ (million)</b>	1,664	-0.2%	3,240	0.0%	3,321	2.5%
	<b>gals (million)</b>		-1.5%	172	-1.0%	173	0.5%

The architectural coatings segment is the industry bright spot for 2004 and continues to carry the overall market due to continued strength in new housing construction and in the turnover of existing homes. The conventional wisdom is that this strength in the housing sector is directly related to the historically low mortgage interest rates and the peak earnings years of the “baby boomers”.

However, the strong growth in architectural is offset by continued weakness in the product OEM coatings and special purpose coatings segments. Product OEM has severely suffered the last three years due to the offshore production of painted goods, which is dramatically reducing domestic demand for coatings. Weakness in the special purpose segment is due to reduced spending on industrial new



construction and maintenance, and the continued slow decline of volume in automotive refinish.

The industry is facing substantial challenges as 2005 unfolds. Commodity raw materials are showing substantial tightening of excess capacity as the industry is competing for these resources with the emerging demand from China and India. This tightening of supply/demand has resulted in raw material price increases that formulators have not seen since the very early 1990s. As raw material prices increase, there will be pressure on formulator's margins and a need for formulators to pass price increases on to end-users. Interest rates are expected to increase in 2005, which will most likely dampen demand in the housing market and cascade to a slowing in architectural coatings demand. On the upside, a continued weak dollar should help the OEM coatings market as exported US goods become more competitive. Also on the upside is the expected growth in industrial maintenance coatings as the US economy reaches a point in the business cycle where companies usually feel most confident in reinvestment in, and maintenance of, their plants and facilities.

ChemQuest forecasts modest growth in 2005 of 0.3% on volume and 1.3% on value.



## About the Author



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Michael joined ChemQuest in 1999 after 17 years with DuPont Automotive, where he was Business Manager, Light Industrial Coatings. Prior assignments were in marketing and product management positions with DuPont in the Refinish automotive and fleet aftermarket business. His automotive experience also includes sales and technical experience in the engineering plastics markets. He holds a B.S. in Chemical Engineering from Kansas State University. Contact Mike at (302) 235-2217 or [mdbrown@chemquest.com](mailto:mdbrown@chemquest.com)

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