Analysis of the Asia-Pacific paint and coatings market

No doubt, the world economic growth was greatly impacted by the key happenings in 2008 and 2009. In 2009, we saw North America and Europe recording negative growth numbers however growth regions such as Asia-Pacific (APAC) and Middle East still maintained positive growth numbers. From 2010 onwards, growth is expected to return positive, mainly aided by the strong performance of the Asian economy.

Economic growth in APAC region remains resilient despite global economic crisis
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Looking at past years, we can see that the world economy grew at an average of 4 to 5 % annually. In 2008, that dropped to 3 % and in 2009 the world economy further contracted by 1.1 %. Now let’s take a deeper dive into the economic growth within the APAC region by looking at some key growth countries. China, the clear front runner of the Asian (and world) economic growth was greatly impacted in 2009, with growth rates dropping to 9 % from its average 15 to 20 %. This is as a direct result of China’s increasing foreign investment growth as well as dependence on exports. To counter this, the Chinese government put in place aggressive policies to support and drive domestic demand, thus bolstering growth.

Vietnam and Indonesia are key hot spot markets
Within ASEAN, the two key hot spot markets are currently Vietnam and Indonesia. These countries have not been as hard hit as other ASEAN countries reflecting its relatively lower share of advanced manufacturing and its higher contribution to growth coming from domestic demand. The growths of these countries are expected to remain positive over the coming two years. Moving on to the industrial giants in Asia, Japan and Korea have not fared well during the economic crisis having been severely hit due to their extensive global financial links. These are mature markets registering minimal growth within the market place and sustained positive growth is only expected to remerge in late 2010, once the external environment improves.

Market growth of 20 % in China and India
The APAC paint and coatings market is growing in line with the robust economic growth seen in the region. In 2008 the paint and coatings market in APAC was valued at USD 40.1 billion with a volume of 13.6 million tonnes or approximately 11 billion litres. This makes up roughly 30 to 35 % of the global paint industry.
In the last five years, the APAC paint market enjoyed a compounded annual growth rate (CAGR) of approximately 15 %. However, effects of the economic slump begin to hit the market in the second half of 2008 continuing into the first half of 2009. Industry players only started to see a positive rebound in late 2009. Overall in 2009, the market is estimated to have only recorded marginal growth. The negative growth seen in most countries has been buffered by the positive growth coming from China and India. Industry players are positive and confident on seeing positive growth numbers in 2010 and 2011. Next, let’s zoom in on individual countries paint market growth, CAGR (2004-2008), versus its paint consumption per capita. Paint consumption per capita is the total volume of paint consumed in a country divided by its population. This is followed closely by Vietnam and Indonesia who have also begun to show high growth potential with double digit growth rates and equally low domestic consumption. Much opportunity in terms of volume sales exist in these countries.

On the other hand, mature markets such as Australia, South Korea and Japan have lower market growth but high paint consumption per capita indicating a rather saturated market. Areas of opportunities in these countries lie in the form of high value coatings exhibiting higher performance attributes or to be used in niche applications.

Competition through coatings substitutes will challenge the market
In terms of drivers, the more notable ones in the recent one to two years are clearly the impact of stimulus packages to boost domestic demand and mergers and acquisitions within the industry that have helped sustain company growth. Besides that, the recently finalised free trade agreement (1 January, 2010) between ASEAN and China is also expected to play a positive role in driving the industry as will new coating technology entering the market.

The terms green chemistry, nanotechnology and smart coatings are the current buzz words and formulators are finding ways to couple these three technologies together to produce coatings that are not just environmentally friendly but also able to enhance sustainability.

In terms of restraints, we see the market has been heavily impacted by the reduction in export demand from the west which has particularly affected coatings serving the automotive, industrial furniture and white goods production industries. Along with this, rising raw material prices as well as fiercer competition from small, back end players in Asia that operate at lower cost, place much pressure on industry players in terms of margin squeeze. In the long run, competition from coating substitutes such as glass and steel is also expected to negatively impact the market.

Protective and powder coatings show highest growth potential
The paint and coatings market can be further split into ten key segments. They are decorative, automotive OEM, automotive refinishing, powder, coil, can, industrial wood, marine, protective, and other industrial coatings. The six focus segments are decorative, other industrial, industrial wood, protective, powder and automotive OEM coatings ranked in order of market size. Combined these six segments make up close to 90 % of the total market value. Figure 3 highlights the growth rates of each segment from 2004-2010.

For these segments, their substantial size and growth has been greatly spurred by a demographic shift towards urbanization, higher industrial growth within the countries in Asia, increased activity in the oil & gas industry and a healthy export market. Protective and powder coatings are estimated to witness the highest growth in coming years despite being hit badly in 2009 due to a reduction in export demand of white goods and postponement of key construction projects.

Coating resins market will continue thriving

Having looked at paint market growth in this region, let’s zoom into an analysis of the key raw materials within a paint formulation. Paint is generally composed of resins, pigments, solvents, and various additives. Pigments give the paint its colour; solvent is the medium used to carry the paint ingredients making it easier to apply, resins are the binders that encapsulate the pigment and additives together in a smooth film once dry and additives serve as everything from fillers to anti-fungicidal agents. A typical paint formulation contains a mixed balance of these key raw materials that come together to produce a coating with desired properties.

Typically resins, an integral component in a paint formulation, accounts for an average of between 20 and 30 % by volume. However there are formulations that use much more or much less than this amount depending on the requirements.

The Asia Pacific coating resins market is an evolving market. The market for coating resins in APAC in 2008 was valued at USD 11.07 billion with a market size of around 2.8 million tonnes. The coating resins market which serves the paint and coatings industry is highly dependent on the growth of the latter. Despite the downturn in economy and subsequent slowdown in demand, the market for coating resins in Asia Pacific has thrived, and is expected to continue this trend in the coming years along with the robust growth seen in the paint and coatings industry. It is expected to have the highest growth rate compared to that of other key regions, benefiting largely from industrial migration and low labor cost in the region. Most end-use industries have already set up manufacturing centers in Asia to capitalise on the growing paint and coatings market and to increase profitability. Nevertheless, Asia is still affected by some key challenges such as slowing growth in the mature high-value markets including Japan and South Korea, consolidations within the industry that restrict the growth of local stand-alone resin manufacturers, and inferior advancement in R&D as most of the technology is transferred from the west.

**Success factors for industry players to stay ahead**

In order to succeed in this evolving and thriving industry in APAC, industry players within the coatings market need to focus on some key success factors in order to succeed.

Focus on branding This is becoming more and more important with the increase in awareness amongst consumers. In China for example, local branding is fast becoming an essential marketing strategy to capitalise on increasing domestic demand.

Enter new markets or segments APAC is a rapidly developing region with many growth countries and segments as reviewed above. These hold much opportunity for industry players who are willing to invest in these areas. Innovation Customers are becoming more demanding and aware of paint and its attributes. A competitive edge is required to distinguish the key players from the masses.

Keep abreast with changing regulations In terms of safety and health, APAC tends to take cue from its more advanced counterparts. Industry players need to be aware of regulations impacting the industry not just at a local level but also at a regional and international level. Most trends in Western regions tend to find their way to Asia at some point.

Green coatings are the leading technology trend in the region

A recent poll conducted by Frost & Sullivan in early Q1, 2010 with key industry players within the APAC coatings industry showed that 53 % were of the opinion that the market would grow between 5 to 10 % in 2010 and 2011 and a further 47 % were expecting higher growth of between 10 to 15 % for the same time frame.

In terms of technology, green coatings are expected to be one of the leading technology trends in this region. In the same poll, 37 % were confident that green coatings would witness high growth in the coming five years with a further 50 % of the audience predicting moderately high growth.
Figure 1: Current and forecasted GDP growth of key economies, 2003-2013
Source: IMF(World Economic Outlook, Oct 2009)
Figure 2: APAC paint & coatings market size (2003-2008) Source: PaintFrost, Frost & Sullivan
Figure 3: Paint market growth rate versus per capita consumption Source: Frost & Sullivan
Figure 4: APAC paint industry market drivers and restraints Source: Frost & Sullivan
Figure 5: CAGR growth rates of key coating segment in APAC, 2004-2010
Source: PaintFrost, Frost & Sullivan
Figure 6: Raw material composition of a typical paint formulation Source: Frost & Sullivan