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2019: THE COATINGS MARKET STRUCTURAL GROWTH IN BRAZIL

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Coatings have as a general definition a wide spectrum of applications and as such, their consumption is driven by several factors related to the markets where they are utilized.

However, there is a basic factor that impacts all the paint segments and provides the backdrop: it is the Brazilian market repressed demand. Renovation, new constructions, investments, repositions, maintenance and other uses have been postponed in recent years in Brazil. Many sectors have already reached the postponement limit and possibly will move to the new investments group to support their operations.

Considering the moment of urgency and importance, the perceptions and reactions with repositions are quite optimistic and, it is expected short term materialization of resumption with investments.

Preliminary scenarios for 2019

In a broad scenario, Rácz, Yamaga & Associates conducted their econometric model to evaluate the behavior of diverse market segments. The 2019 planning cycle is just starting!

The consumption of Architectural Coatings is driven by the evolution of the middle class and its purchasing power. In a broad way and in the medium and long term this is the determining factor for growth. The volume evolution at the end consumer level is driven primarily by housing repair and maintenance and secondarily by new construction investments. In the short term the inventory formation factor affects the volume of architectural coatings paints supplied by the industries to the distribution channels. In this case the expectation of distribution channels with future sales generates a more consistent distribution completion level. The confidence towards the next demand has a marked influence in the volumes for the coming months & quarters. The resumption of investments and the continued positive evolution in many sectors of the economy will generate the expected structural reduction of unemployment, strengthening the consumer power, generating a virtuous circle. The volume growth forecast for the Architectural Market in 2019 is expected to be 3,2%.

The Automotive Refinish market has been a resilient market. The driving factor is the continued growth of the Brazilian automotive fleet. Even in years of reduced

sales of new vehicles, the fleet increases as the withdrawal of old vehicles from circulating fleet is continuously much lower than new vehicles entry.

The Original Automotive Coatings (OEM) market is directly impacted new vehicles production volume. In 2017, the production of vehicles reacted with the resumption of exports, followed by 2018 domestic market new vehicles sales reaction with accentuated growth after years of reduced volumes. For next year the sales of new light and heavy vehicles, will continue in an accelerated growth due to depressed demand, but also with the resumption in the investments.

The Industrial Coatings market adds up several very important segments that has been growing since 2017, according to our article published in November 2018 in this magazine. Auto Parts segment has been influenced by new vehicle production increase and the continuous growth of the aftermarket. The Special Vehicles segment - agricultural machines, buses, construction vehicles, and others has been already benefited by direct factors such as agri business and the expectation to serve new investments that will impact a structured growth for coatings.

The Maintenance and Marine Paint segment will be impacted by reactivation of maintenance, reforms and investments deferred in recent years, as well as the impact of the new investments in the oil & gas / petrochemical area.

The segments of wood paints, packaging, general industry and powder paints will benefit greatly in different degrees, due to increased consumption in general and primarily due to the reduction of unemployment and the strengthening of middle class.

	2017	2018 (E)	2019 (P)	2018/2017	2019/2018
	MML	MML	MML	%	%
IMOBILIARIA	1277	1291	1331	1,1%	3,2%
REPINTURA	83	86	90,4	3,6%	4,6%
AUTO OEM	39	44	48,3	12,5%	10,0%
INDUSTRIA	284	295	311	4,0%	5,1%
TOTAL	1683	1717	1781	2,0%	3,7%
					RY-NOV 2018

Tabela: Mercado de tintas do Brasil

When you consider the various segments and subsegments of the paint market with their specific factors, a 3.7% growth in the paint market by 2019 does not seem to be over optimistic. However, the volume level may be modified in the 1st. quarter of

2019. The figure summarizes the volumes of paint to be supplied by the industry to the market.

Productivity and Innovation

For all segments, the new volume levels will require not only a response to the demand for capacity utilization, but also a strategical review of productivity programs. The paint industry in Brazil along the recessive period and throughout the supply chain and its distribution, had to prepare for the new demands of end users bringing solutions and competitiveness.

Innovations in distribution channels and new technologies should guarantee domestic markets and positioning in foreign markets, where we will be competing in a more globalized market. On the other hand, the new dimensions of the Brazilian market will be more attractive for new and more competitive entrants.

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