

## Stafda Mfg. Liason Committee

### Industry Report – Levels and Layout Tools

Steve Betzler, VP Sales

Empire Level Mfg Corp.

Updated January 26<sup>th</sup> with details on Hispanic Market research. (see red)

#### **Market Snapshots:**

##### **Comments on 2011 Sales:**

Empire seeing strong double digit annual growth in the Industrial/commercial sectors while still sluggish (low single digit) activity in residential construction.

Strong double digit growth continues with Industrial/Contractor focused wholesalers (examples: OKI Bering and ORS Nasco) Contractor/Industrial retailers buying more products via distribution to avoid freight minimums, stay in stock, while keeping minimal inventories.

Mild 4<sup>th</sup> quarter weather helped keep sales up in the northern tier states allowing concrete work and setting up a slightly accelerated pace for the other trades in Spring 2012.

##### **Friday's housing news:**

Jan 20:

The National Association of Realtors on Friday said December sales rose 5% to a seasonally adjusted annual rate of 4.61 million. For all of 2011, sales edged up 1.7% to 4.26 million - compared to the 2005 peak of 7.08 million. Inventories fell 9.2% to 2.38 million, which represents 6.2 months of supply. **The months of supply of inventory were the lowest inventory since April 2006**

##### **Recent construction employment news:**

From Cleveland Research (January 2012)

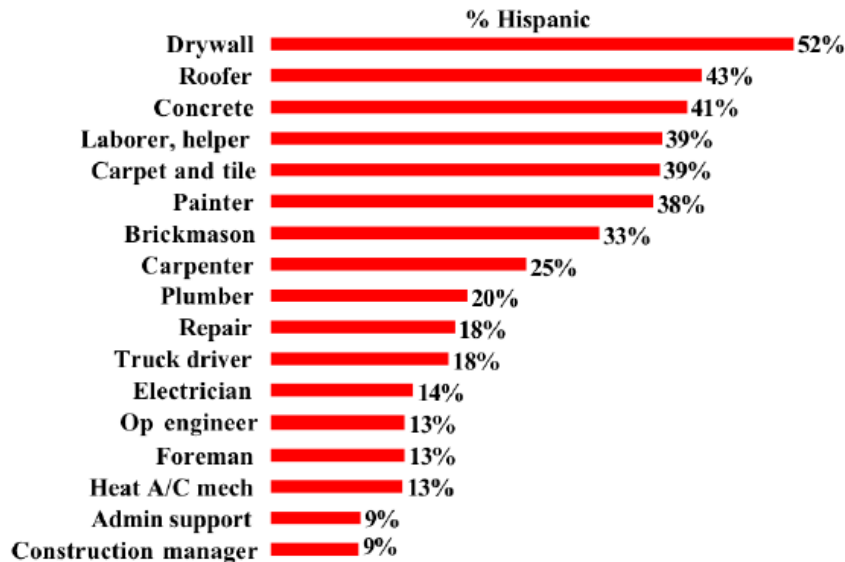
Construction employment increased by 17K jobs in December.

Total construction employment increased by 46k jobs in 2011. This was the first increase for construction employment since 2006.

## Hispanics in Construction:

We are all familiar with this trend in the construction trades..

In 2009, it was reported that 25.1% of construction workers in the US were Hispanic.



During the U.S. economic boom, the proportion of Hispanics more than tripled in construction. (The Center for Construction Research and Training)

National and Big Box retailers have been specifically targeting the Hispanic market. Home Depot and Lowe's have long standing marketing strategies and now other tool retailers and hardware stores are announcing their plans

For example this press article:

*"Among the general market, Ace Hardware is a well-known brand. But a bit surprisingly, the brand isn't so well-known among Hispanics. With that in mind, the 85-year-old company is using its first Hispanic-centric marketing campaign to introduce the brand to the nearly 50 million Hispanic-Americans."*

*The effort, which includes television and radio commercials, links Ace Hardware to the Spanish term "La Ferreteria," (hardware store) which is a center of the community for many Latin countries.*

What are we doing at Empire?

Hired a full time Hispanic market researcher focused on job site and end user research. Web, packaging, literature, and advertising all include Hispanic focus.

Stafda members may choose to identify and support suppliers who market strongly to this group while working on their own product, communication, and service strategies.

**Question from Jan 25<sup>th</sup> Stafda Advisory Group:**

**Does the Hispanic Construction segment have similar or different buying behavior regarding “country of origin” and “made in USA” products?**

**From TSF Research:**

**Overview of trends and**

Hispanics want to assimilate. Many are relatively new to the construction trades and want to feel part of the industry and group. Part of that is buying American tool brands. (They still buy brands from their home countries, particularly foods/beverage)

2. Premium products are important because status is important. Example: Michelob beer is a huge brand in Hispanic markets, connoting “a premiere status”. Having the right brand of tools and power tools on the job conveys some degree of status.

**Power & Hand Tools to 2014 (Fredonia)**

US demand for power and hand tools will rise 4.1 percent annually through 2014. Gains will be driven by a rebound in housing starts and ongoing consumer interest in DIY and home remodeling activities. Power tools will continue to outpace hand tools, while professional demand will grow more rapidly than consumer demand.

This is close to the predictions received by a number of Stafda channel retailers and others catering to the PRO.

Consensus: Hand Tools including Levels/Layout 2-4% increase overall in 2012.

Exceptions: Florida/Arizona/Las Vegas/So. California

**Consumer trends:**

From Yankelovich:

People deciding to stay up market or go up market on **important** stuff. People are less interested in replacing stuff prematurely. Reporting that people ARE trading down market on **unimportant** stuff.

Empire monitors “average ticket”. This metric is holding steady for 2011 and since 2008. Professionals purchasing upon product failure or when it is “worn out” but NOT going down market.

### **Two Trends: Increasing “Made in USA” and increasing “Buy from USA”?**

A recent Gallup Poll found that 72% of Americans are paying “heightened attention” to the country of origin of the products they buy and 65% are making an effort to specifically avoid products made in China.

The Poll revealed that nearly 2/3rds of Americans would pay more for products produced in the United States of America.

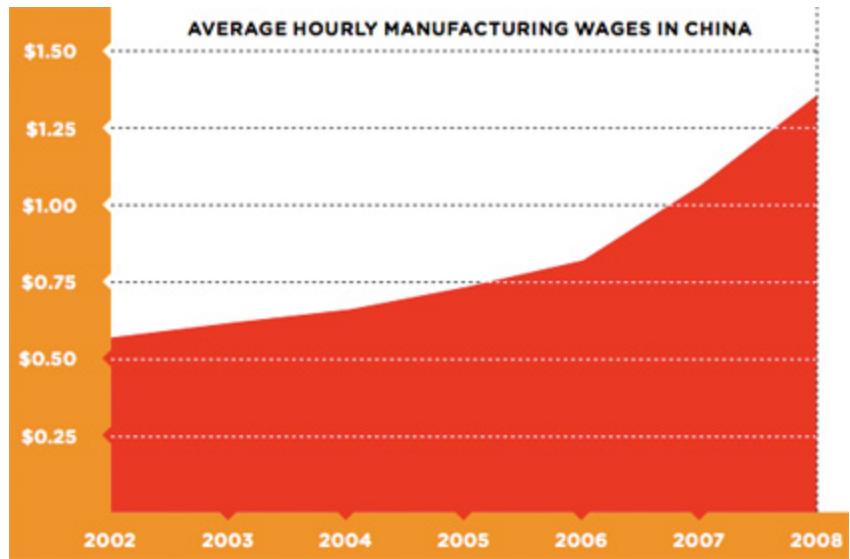
Empire/TSF research: 2011 Jobsite research, nationwide

- 63% of professional builders consider made in U.S. products are higher quality

From [www.mfg.com](http://www.mfg.com) survey – October 2011:

*For US firms, the decision to manufacture overseas has long seemed a no-brainer. Labor costs in China and other developing nations have been so cheap that as recently as two or three years ago, But stamping out products in Guangdong Province is no longer the bargain it once was, and US manufacturing is no longer as expensive.*

*19 percent of the companies that responded to an October [survey by MFG.com](#), an online sourcing marketplace, said they had recently brought all or part of their manufacturing back to North America from overseas, up from 12 percent in the first quarter of 2010. This is one reason US factories managed to add 136,000 jobs last year—[the first increase](#) in manufacturing employment since 1997.*



*Manufacturing wages more than doubled in China between 2002 and 2008, and the value of the nation's currency has risen steadily.*

*Estimates are that Chinese workers are 25% as productive as US workers. And though Chinese workers still earn a fraction of what their American counterparts do, the rising costs of labor there are prompting companies to reevaluate their production strategies.*



Made in America trend continues upward concurrent with a Buy in America increasing preference from consumers.

**Raw Material Challenges:**

Many professional magnetic levels use “rare earth” magnets as their key component.

**Rare earth elements** are a group of seventeen chemical elements that occur together in the periodic table. The group includes neodymium which is the key raw material in rare earth magnets. **China** is the dominant producer of rare earth elements and is believed to be responsible for over 95% of the world’s production.

In 2010 China announced that they would significantly restrict their rare earth exports to ensure a supply for domestic manufacturing. This announcement triggered some panic buying and rare earth prices shot up to record high levels.

### **Rare Earth Element Outlook**

"Rare-earth use in automotive pollution control catalysts, permanent magnets, and rechargeable batteries are expected to continue to increase as future demand for conventional and hybrid automobiles, computers, electronics, and portable equipment grows.

Costs over the last 18months have increased over 400%. Volatility is predicted to continue.

