



State of the Industry Report
Manufacturers Liaison Committee
World of Concrete
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Report prepared by:

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For those of you not very familiar with C.H. Hanson... we are a privately held manufacturer and marketer of non-powered hand tools whose roots date back to 1866.

Hanson's oldest product lines (Steel Stamps, Brass interlocking stencils, Metal Tags) serve primarily the Industrial MRO marketplace. Hanson's newer product lines include; Layout Tools, Chalk Reels and Chalk, Specialty Utility Knives and Marking Products which primarily serve the Professional Contractor and "Pro-Sumer" marketplace. In 2009 C.H. Hanson completed an acquisition of an innovative line of Automatic locking pliers, Automatic C-Clamps and Groove Joint Pliers which has greatly expanded our coverage in the Automotive marketplace. Visit us on-line at www.chhanson.com

With the economy being in recession, all aspects of the business channel are challenged with finding business in places they may not searched before. Manufacturers as well as distributors are seeking new channels of distribution so I will address both the Industrial MRO channel as well as the contractor supply channel since these two channels have historically overlapped for many companies and is especially true in this economy.

Most of the facts in this report are attributed to the Institute for Trend Research which publishes a monthly newsletter called Eco-Trends, and the NAHB website and

its links and the Industrial Market Digest published by the Industrial Supply Association.

Construction Supply:

Last year I reported that the news was not ALL bad and that there were pockets in the Contractor Supply channel that were not hit as hard as other areas and sectors i.e. the Southeast Region and the Energy Sector. Unfortunately, both the Southeastern Region of the US and the entire Energy Sector have caught up with the slow-down.

The attendance at the 2010 NAHB was 55,000 down significantly from just a few years ago when attendance was over 100,000. According to a press release from the NAHB, the mood of the exhibitors and attendees was characterized as more guardedly optimistic than the previous year. This is consistent with what we have seen in our company in the Industrial channel. Everybody is generally glad to have survived 2009 and are thinking that the "worst is behind us" and are looking forward to a 2010 that is better than 2009.

The NAHB estimates that the number of new single family homes built in 2009 was 440,000 and their prediction for 2010 is an increase to 600,000. As percentages go, this is a pretty nice increase except when you consider that historically we had been building around 1.5 million homes in a year. Eco Trends (published by the Institute of Trends Research) has the housing market in Phase A, which is the first phase of a recovery trend and signals that the phase has likely bottomed out or is beginning to show signs of recovery.

The inventory of existing homes for sale is currently at 7.2 month supply which is an improvement from last year. Foreclosures and distressed sales have impacted the prices of homes which have fallen again, but the rate of decline is slower than in previous quarters. While nearly everyone is expecting some recovery in home prices and continued reduction in the months of supply of existing homes, nobody is certain what is really going to happen next year because of the affects of the government tax credits for first time home buyers (and the extension of this tax credit to people buying replacement homes) and what is going to happen once the credits expire.

A new factor that is very relevant to our recovery is the availability of money for people and companies to borrow. People seeking mortgages are being required to have "Stellar" credit and home building companies are struggling to get financing for projects and lending institutions are changing terms of existing credit lines and instruments. The bank bailout has not helped out homeowners and companies seeking new sources of capital. I have heard first hand stories of companies that have had a difficult time seeking financing for new acquisitions even in spite of the project being a good deal with a very high likelihood of success.

Remodeling has been another segment of the channel that has seen dramatic reductions. With housing prices declining and many homeowners "upside down" on

the loan to value ratio of the property, there is simply no money to perform any significant remodeling. According to the NAHB, who tracks perceptions of business conditions in the remodeling industry, the trend is still negative but improving. The current index ranking is 38.7 which is the third straight quarter of improvement, but any ranking below 50 means that more remodelers think conditions are getting worse than improving. The index has been below 50 since the 4th quarter of 2005.

One of the most obvious impacts the economy has had on contractor distributorships (besides the loss of revenue) is the strain it has put on the viability of the company. We have seen distributors whose sales are off 60% from 2008. While this is one of the worst cases I have seen, they are certainly not alone in the low to mid double digit declines. It is not uncommon to hear of a distributor being off 40%. Where a distributor's sales are off this far, the company has had to make dramatic cuts to their staff and inventory. Distributors are in survival mode, which makes it very difficult to sell them anything other than pure commodities that they know they can turn and convert to cash. We have also seen distributors that were at very high stocking levels during 2008, "live" off of the cash that the inventory is supplying them with, without purchasing anything new during 2009. Significant cut backs in staffing have resulted in senior members of the management team performing functions that they probably haven't done in years; checking in shipments, performing inventory counts and working the counter when there are no outside sales calls to make.

These cutbacks have not only affected Manufacturers and Distributors but the Independent Manufacturers Reps as well. We have seen a number of agencies cut staff and payrolls in trying to keep the same number of feet on the street. The Reps themselves have had to adjust what products they spend their efforts on. If a Rep has one line that is still selling well, he will spend more of his time on that line in front of different people because he knows that he can make money. This leaves the other lines in his bag challenged for time and exacerbates the manufacturers' revenue decline.

Other news:

Office Building Construction: In 2009 I reported that "EcoTrends points out that the current 12 month moving total is at a record high and will fall only 4.1% in 2009. They point out that the credit crisis is making it difficult to fund new projects. " This area is really projected to take a hit in 2010 coming in at 20 to 23% below 2009. Permits for this type of construction have fallen 57.3% over the last 12 months.

Commercial Building Construction: In 2009 I reported that Eco Trends noted "This segment of the industry has been hit hard by bankruptcies and further store closings will result in a level of activity 6.8% below 2008 levels. Building permits are down 35.5% from the same six month period last year." In their January 2010 report they indicate that new permits are at a 10 year low and are 55.5% below the level of last year and will continue to be very soft for 2010.

Highway and Street Construction: The DOT has reported that 84% of the money given to them in the Economic Stimulus package has been allocated and that this money will continue to be spent over the next couple years. This is perhaps the only bright spot in construction.

Educational Building Construction: There is good news and bad news here. The bad news is that the spending for 2010 is going to be less than in 2009 and funding is a problem. The good news is that a major source of money for these projects comes from endowments and a recovering stock market could have a favorable impact in 2011 for growth.

Industrial Building Construction (including Power Plants): Spending is projected to be lower than in 2009, but not at an alarming rate. As demand for energy has ebbed during the current economic downturn, the desire to fast track huge energy projects has slowed. There are currently 26 applications for new Nuclear plants in the US and not a single application has been approved. A lot of attention has been brought to nuclear power because of the spike in petroleum prices and the possibility of a Cap and Trade policy on carbon. Natural gas resources and stockpiles have spiked with large reserves found and may be a less expensive (from an economics standpoint) higher carbon alternative to nuclear. Financing will continue to be a problem to get the nuclear plants off the drawing board and into the ground breaking phase. Overall, a very murky picture with no clear winners emerging.

Domestic Manufacturing:

2009 was a brutal year for domestic manufacturing. Labor force reductions were the normal course of business as the recession dug in and once it became apparent that a recovery was a long way off. EcoTrends is forecasting some economic growth for 2010, but nothing that is going to cause any immediate benefit for most people.

The Midwest has always been steeped in manufacturing and the suburbs of Chicago have many large industrial parks. One of the largest is in Elk Grove Village Illinois. Elk Grove Village is the 3rd most industrial sector in the state of Illinois trailing Chicago and Rockford. The vacancy rate in the EGV business parks is about 14% and the highest that anybody can remember. The entire state of Illinois has not fared much better with Illinois losing 50,925 manufacturing jobs and 709 manufacturers between November of 2008 and November 2009.

We have definitely seen a re-surfing trend at C.H. Hanson of distributors importing more products that used to be sourced domestically. The pressure has primarily come from larger publicly traded companies where in the absence of their ability to grow their top line, they have focused on margin improvement. This improvement has come from sourcing products overseas. We have also seen a reduction in quality of these imported products as compared to the domestically manufactured tools. This has put a further strain on domestic employment numbers where you are faced with "double trouble"; lower overall domestic demand combined with

increased import competition. Strong trade associations have helped battle unfair foreign competition in the form of "dumping", but these fights are long and expensive and don't help the large majority of domestic manufacturers.

Exports were a bright spot of US manufacturers in 2007, reversed course in 2008 and were tough to call in 2009 because the entire population suffered from the global slowdown. Prospects for increased exports are greatly improved in 2010 due to the protracted projection for a weak dollar. There is a chance that a very weak dollar could help companies compete with the imports that their distributors customers may have switched to on a direct import basis.

Demand Conclusion: It is difficult to find any bright spots except for the confidence that most distributors have that the worst is behind us.

Supply Issues:

Strong branding will continue to be key in keeping business for non patented items. While many companies are struggling with the top line, their bottom line is being challenged as well. In a real global contradiction, raw material costs have started to rise without a rise in end-user demand. Copper and Zinc have both increased in price dramatically in the past several months. Carbon Steel has increased, LLDPE and other plastics have also increased dramatically. It will be a very difficult climate for manufacturers to raise prices, but some may be forced to do so. With manufacturers working hard to survive the recession, they have cut back to the core of their business and have very limited opportunities to cut costs further which is what Distributors will expect them to do instead of passing on raw material cost increases. Distributors may not have a choice but to accept them since their import costs will be increasing due to the weak dollar.

Management Challenges:

2009 saw nearly every aspect of our domestic economy having to cut costs to survive. After having gone through twelve months of a severe recession, companies have gotten used to operating at a level of activity that is commensurate with their business. There is a great deal of optimism about 2010 which stems from the feeling that surviving 2009 was an enormous accomplishment. 2010 will arrive with its own set of unique challenges, we can only hope that our Federal Government does not continue to promote greater uncertainty than they have in 2009 by pushing new programs that businesses know that they will have to eventually pay for in higher taxes and raw materials.