



THE ASSOCIATION FOR HOSE AND
ACCESSORIES DISTRIBUTION

**NAHAD Industry Trends Survey Results
January 2011**

Highlights / Summary Thoughts

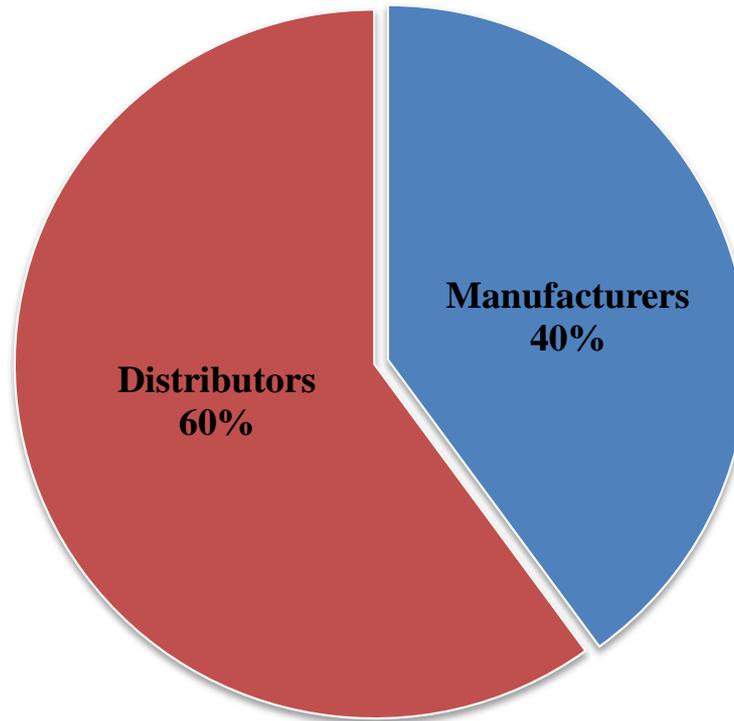
Highlights:

- **Strong Participation** – The second monthly NAHAD Industry Trends survey had 102 respondents comprised of 61 distributors and 41 manufacturers.
- **NAHAD Index** – The NAHAD index for the month of December produced a reading of 65.8, slightly higher than the November reading of 65.7. This indicates that the hose and accessory industry expanded at a slightly faster rate compared with November.
- **Sales and Orders See Robust Growth** – On average, participants reported sales growth of 22% and order growth of 23% in December.
- **Positive Outlook for 2011** – Strong sales, orders and growing backlogs appear to be translating into confidence and visibility for 2011. Participants reported their 2011 outlook remains unchanged at up 12% on average with distributors forecasting 13% and manufacturers 12% growth. This follows average growth of 24% for 2010.

Background

- **Participation** – The second monthly NAHAD Industry Trends survey had a ~24% response rate with 102 respondents. Both distributors and manufacturers were well represented 61 distributors and 41 manufacturers.

Respondents by Type



NAHAD Index

- **NAHAD Index** – The NAHAD index for the month of December produced a reading of 65.8, slightly higher than the November reading of 65.7. This indicates that the hose and accessory industry expanded at a slightly faster rate compared with November.
- The NAHAD Index is similar in construction to the widely followed ISM Purchasing Manager’s Index. These are both seasonally adjusted diffusion indexes which measure the month-to-month change in each of the categories listed below. A reading of 50 indicates no change and the further above or below 50 indicates a faster or slower rate of change.

NAHAD Index - Overall					
<u>Overall NAHAD Index</u>	<u>Nov-10</u>	<u>Dec-10</u>	<u>Direction</u>	<u>Rate of Change</u>	<u>Trend (months)</u>
Sales	62.5	62.4	Growing	Slower	2
Prices	67.7	70.8	Increasing	Faster	2
Orders	69.8	72.7	Growing	Faster	2
Backlog	64.5	68.7	Increasing	Faster	2
Outlook	83.1	82.6	Improving	Slower	2
Inventory	64.8	65.1	Increasing	Faster	2
Supplier Deliveries	70.0	68.2	Slowing	Slower	2
Employment	60.6	59.9	Growing	Slower	2
Accounts Receivable	40.7	50.0	Slowing	From Faster	1
Overall NAHAD Index	65.7	65.8	Growing	Faster	2
Memo: ISM PM Index	56.6	57.0	Growing	Faster	18

NAHAD Index

- **Contrasting Distributor vs. Manufacturer Results** – The tables below contrasts the NAHAD Index by distributors and manufacturers. While both groups showed strong expansion in December, manufacturers' business appears to be growing at a more rapid pace.

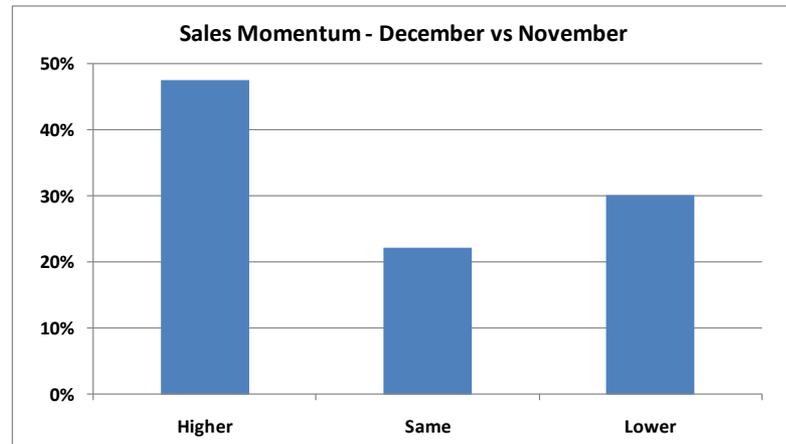
NAHAD Index - Distributors					
<u>Distributor NAHAD Index</u>	<u>Nov-10</u>	<u>Dec-10</u>	<u>Direction</u>	<u>Rate of Change</u>	<u>Trend (months)</u>
Sales	60.9	57.5	Growing	Slower	2
Prices	67.8	69.1	Increasing	Faster	2
Orders	65.6	67.3	Growing	Faster	2
Backlog	64.5	68.7	Increasing	Faster	2
Outlook	83.1	82.6	Improving	Slower	2
Inventory	70.3	70.3	Increasing	Same	2
Supplier Deliveries	74.4	70.3	Slowing	Slower	2
Employment	56.6	57.2	Growing	Faster	2
Accounts Receivable	37.2	48.7	Faster	Slower	2
Distributor NAHAD Index	64.4	63.1	Growing	Slower	2

NAHAD Index - Manufacturers					
<u>Manufacturer NAHAD Index</u>	<u>Nov-10</u>	<u>Dec-10</u>	<u>Direction</u>	<u>Rate of Change</u>	<u>Trend (months)</u>
Sales	64.5	69.4	Growing	Faster	2
Prices	67.5	73.1	Increasing	Faster	2
Orders	74.9	79.8	Growing	Faster	2
Backlog	65.7	71.4	Increasing	Faster	2
Outlook	84.3	83.3	Improving	Slower	2
Inventory	57.1	57.5	Increasing	Faster	2
Supplier Deliveries	64.1	65.2	Slowing	Faster	2
Employment	66.3	63.1	Growing	Slower	2
Accounts Receivable	45.6	51.9	Slowing	From Faster	1
Manufacturer NAHAD Index	67.4	69.4	Growing	Faster	2

Double-Digit Growth in December Exceeds Expectations

- **Sales Growth (year-over-year):** Compared with December of 2009, sales rose an average of 22%, down slightly from the 23% average in November.
- **Distributors vs. Manufacturers:** On average, distributor sales rose 21%, modestly slower than manufacturers who reported average growth of 24%.
- **Momentum:** On a sequential basis, a net 17% of members saw sales accelerate between December and November (48% higher, 22% same, 30% lower), down from 22% last month.
- **Results vs. Expectations:** A net 58% of participants categorized December sales as better-than-expected (66% better, 27% same; 7% worse), up from 42% in November.

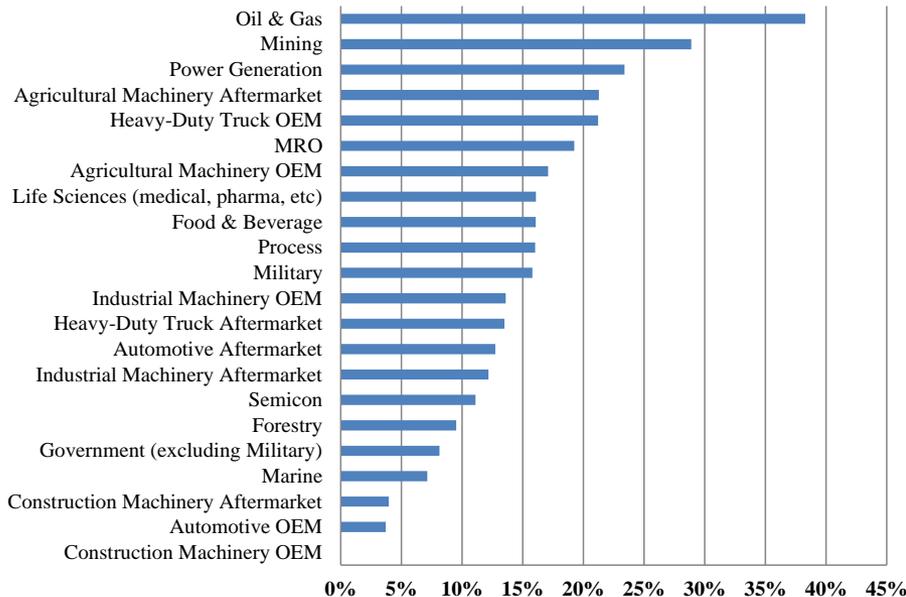
Monthly Sales Growth		
<u>Sales Growth (v/v)</u>	<u>Nov-10</u>	<u>Dec-10</u>
Overall	23%	22%
Distributors	25%	21%
Manufacturers	22%	24%
Results vs. Expectations		
	<u>Nov-10</u>	<u>Dec-10</u>
Better than expected	50%	66%
In line with expectations	42%	27%
Worse than expected	8%	7%
Net % (Better - Worse)	42%	58%



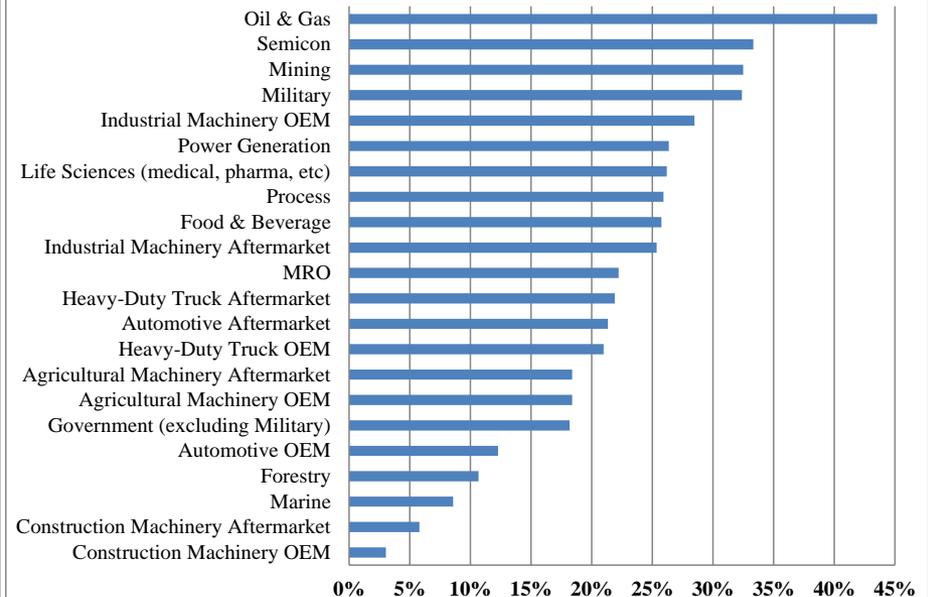
All End Markets Rank Positive; 21 of 22 Improve Sequentially

- The table below attempts to illustrate the relative strength of 22 important end markets. Notably, all 22 end markets ranked in positive territory in December up from 21 of 22 in November. This highlights the broad-based nature of recovery which is unfolding within the hose and accessory market. Oil & gas, semicon, mining, military, industrial machinery OEM, and power generation head the list of top performing markets followed by life sciences, process, food and beverage, and industrial machinery (both aftermarket and MRO).
- Sequentially, 21 of the 22 end markets improved from November to December. Those markets showing the most significant sequential improvement were semicon, military, industrial machinery aftermarket, process, food & beverage, and life sciences. Ag machinery aftermarket was the only end market that produced a lower reading versus the prior month.

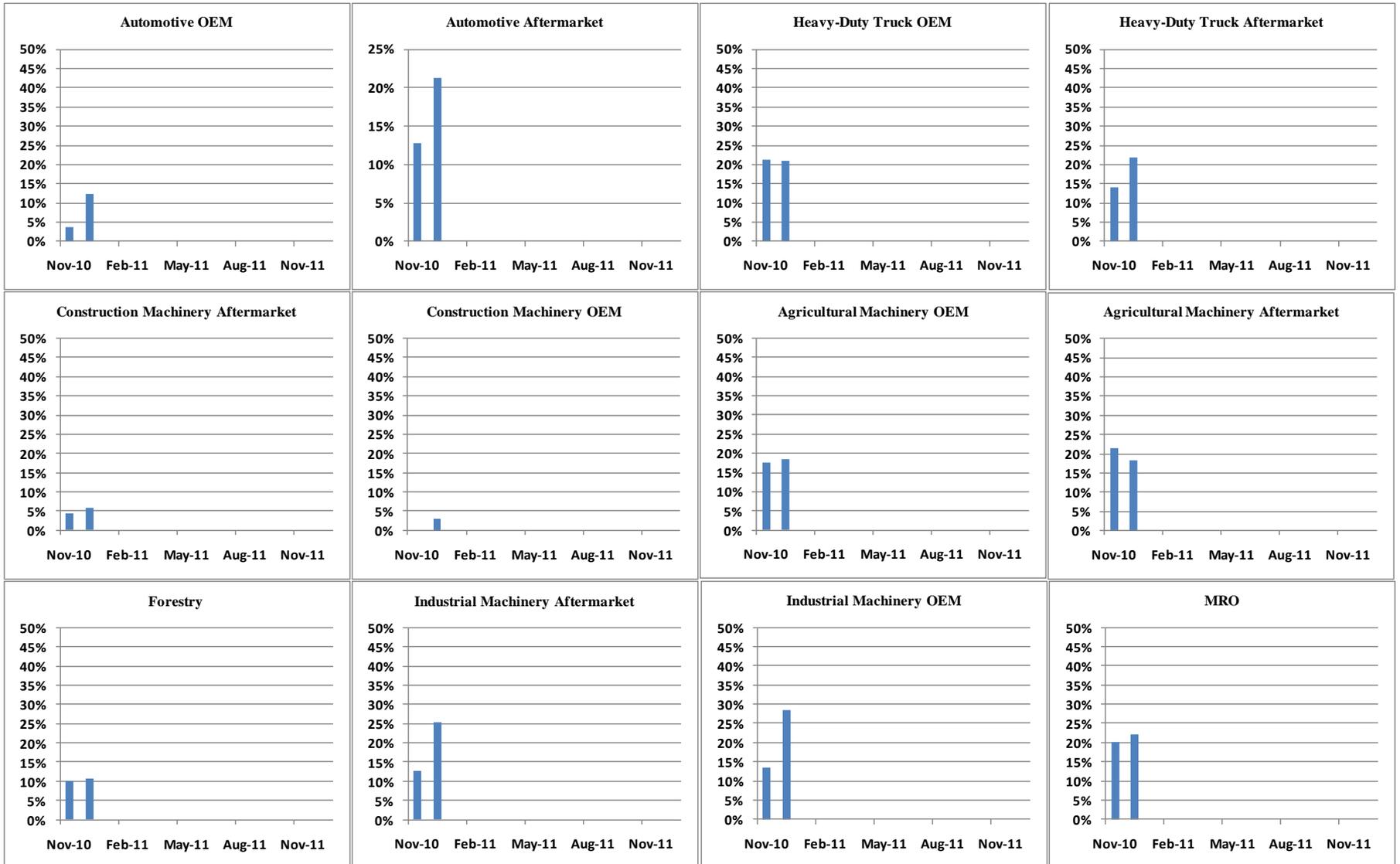
November 2010 End Market Ranking (Net % Strong - Weak)



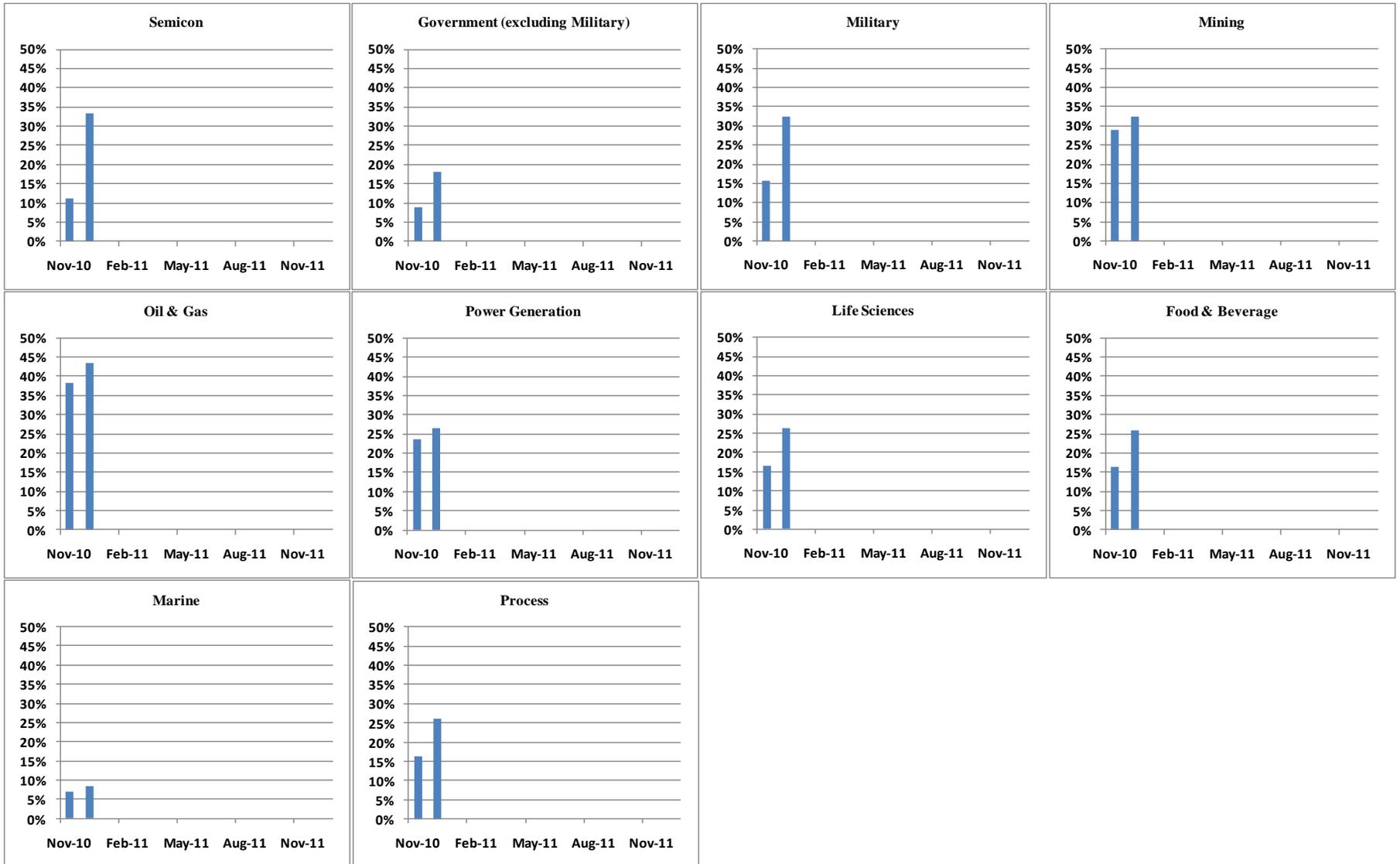
December 2010 End Market Ranking (Net % Strong - Weak)



End Market Trends



End Market Trends

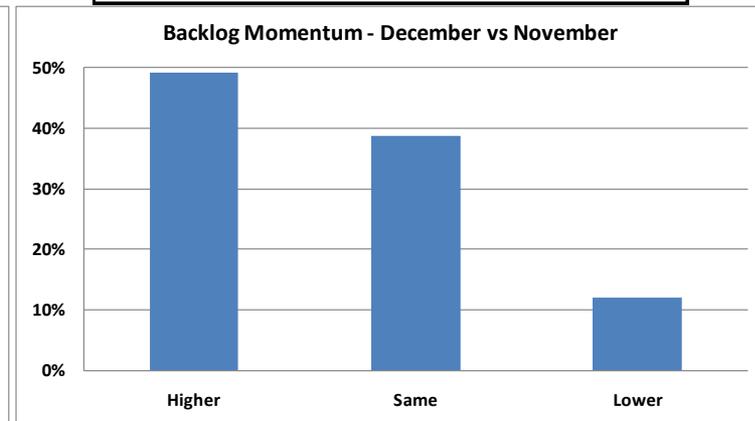
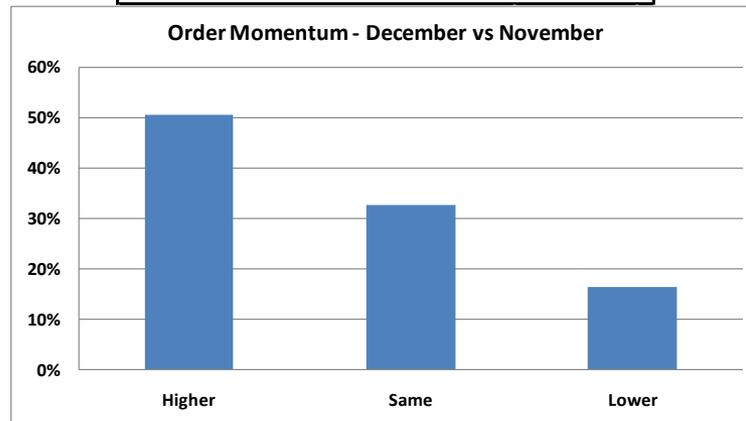


Backlog and Order Growth Stabilize at High Level

- Incoming orders continue to grow at a robust pace with orders up 23% in December, similar to the 24% growth reported in November. Manufacturers saw slightly faster growth compared with distributors in both months.
- Viewed on a sequential basis, a net 34% of participants (51% higher; 33% same; 16% lower) reported an increase in new order activity in December compared to November.
- The strong incoming orders drove a similar increase in backlog which increased 20% on average in December, down from 24% growth in November. Sequentially, backlogs were reported higher by a net 37% of participants (49% higher; 39% same; 12% lower).

Monthly Orders Growth		
<u>Orders Growth (y/y)</u>	<u>Nov-10</u>	<u>Dec-10</u>
Overall	24%	23%
Distributors	24%	21%
Manufacturers	25%	24%

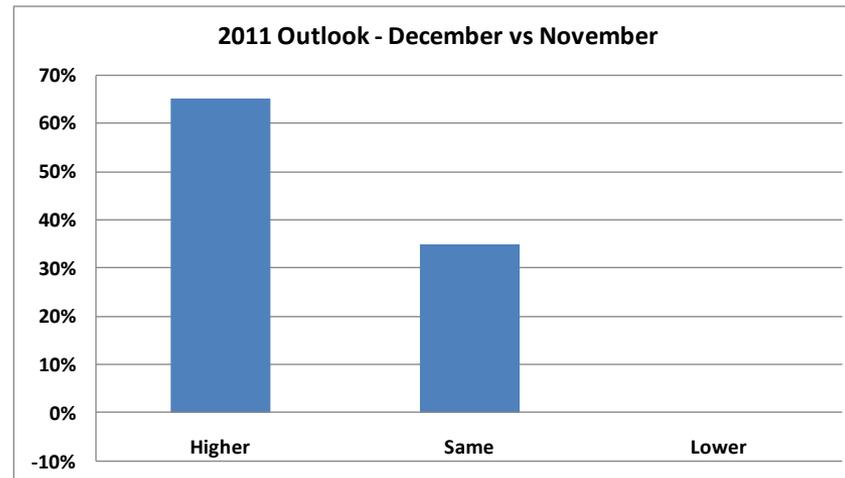
Monthly Backlog Growth		
<u>Backlog Growth (y/y)</u>	<u>Nov-10</u>	<u>Dec-10</u>
Overall	24%	20%
Distributors	22%	16%
Manufacturers	27%	25%



2011 Outlook Unchanged

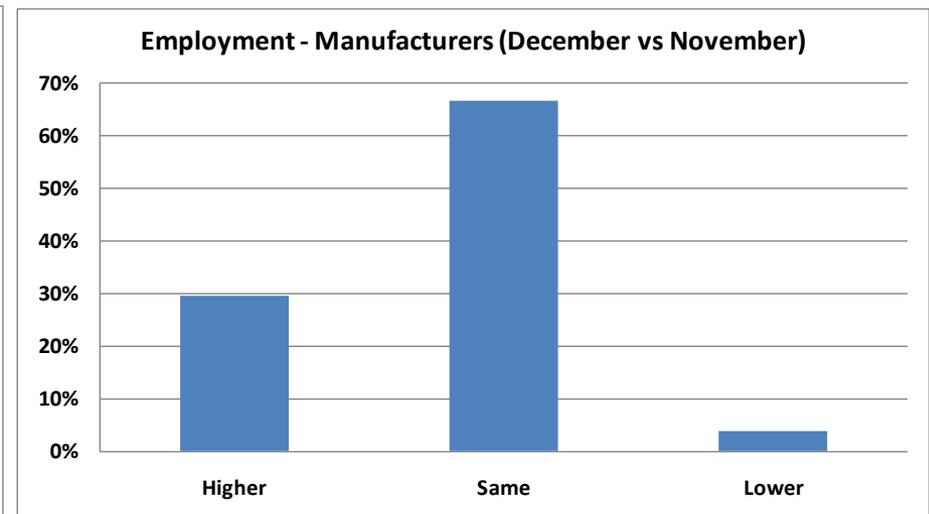
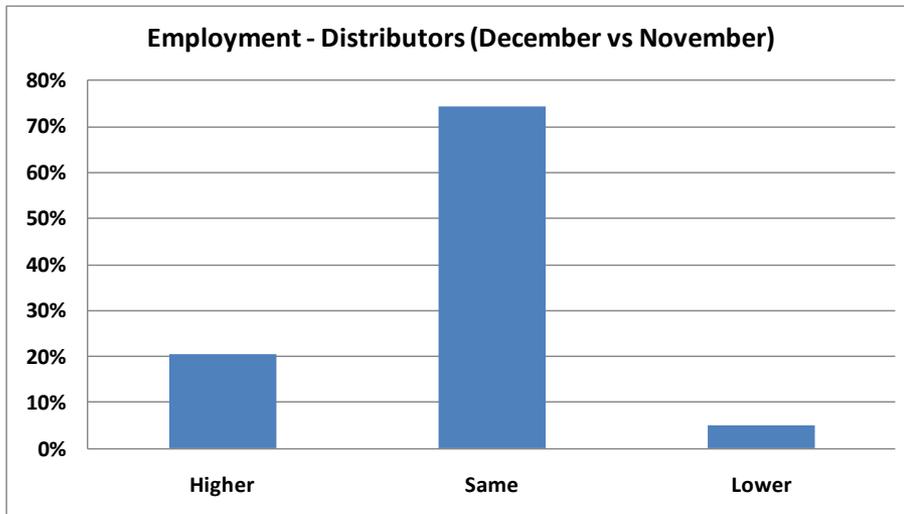
- Robust order activity and growing backlog is translating to a positive outlook for 2011. On average, participants are forecasting full year growth of 12% unchanged from the November survey.
- Notably, 65% of participants said their outlook for 2011 improved between the November and December surveys.
- The robust 2011 outlook follows a strong 2010 campaign where growth finished up an estimated 24% on average.

Outlook				
Sales Growth (y/y)	2010 Outlook		2011 Outlook	
	Nov-10	Dec-10	Nov-10	Dec-10
Overall	17%	24%	12%	12%
Distributors	16%	20%	10%	13%
Manufacturers	19%	28%	14%	12%



Employment Still on the Rise

- A net 20% of participants reported higher employment in December, down just slightly from 21% in November. This suggests that employment among NAHAD members is still on the rise.
- Despite a similar outlook for growth in 2011, manufacturers appear to be hiring at a more rapid pace than distributors. This could be the result of more aggressive force reductions by manufacturers during the downturn.



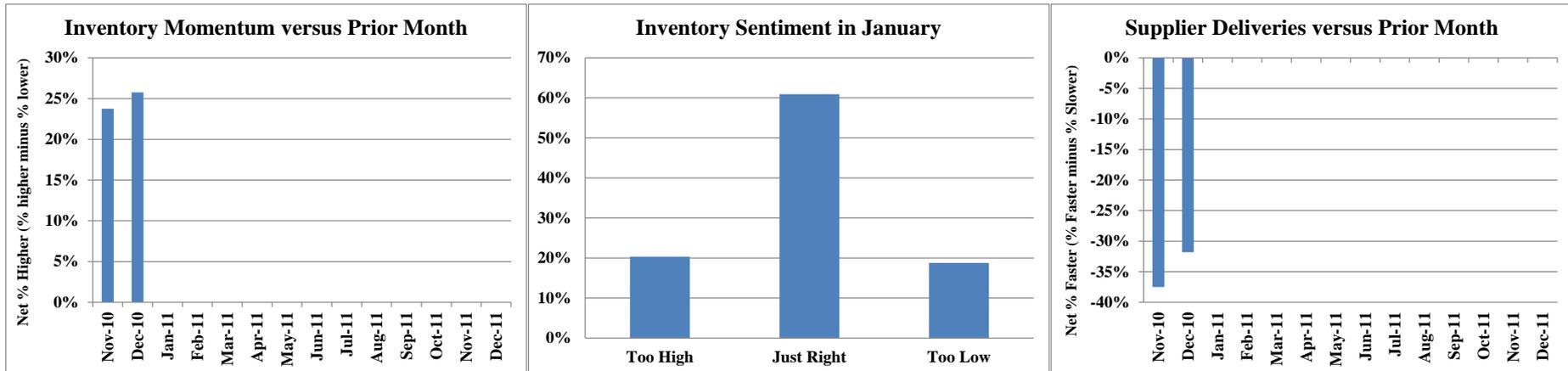
Pricing

- A net 31% of participants reported higher prices for products in December compared to November with 34% reporting higher prices versus just 3% reporting lower prices.
- On average, participants estimate that product prices are up in the range of ~3-4% compared to this same time last year consistent with November.



Inventory Levels Increase; Lead-times Stretch

- Inventory levels appear to be on the rise as a net 26% of participants (39% higher, 47% same; 14% lower) reported holding more inventory in December compared to November, which is up from the net 23% reporting higher inventory levels last month.
- A net 32% of participants reported slower supplier deliveries in December (8% faster; 53% same; 39% slower). This is down slightly from a net 38% reporting slower deliveries in November. This suggests that members may be adding stock in response to longer lead-times.
- Similar to November, over 60% of participants rate their current level of inventory as “comfortable / just right” which seems at odds with the apparent inventory growth over the month.



Manufacturing End Market Trends

Manufacturing End Market Momentum

Major End Market	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Apparel, leather and allied products	↑	↑	↑	↑	↑	↑	↓	↔	↑	↑	↑	↑	↑
Chemical products	↓	↔	↓	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Computer and electronic products	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Electrical equipment, appliances, components	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Fabricated metal products	↓	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Food, beverage and tobacco products	↑	↑	↑	↑	↑	↑	↑	↓	↑	↑	↑	↓	↑
Furniture and related products	↑	↓	↓	↑	↑	↑	↑	↓	↓	↑	↓	↓	↔
Machinery	↑	↑	↑	↑	↑	↑	↓	↓	↓	↑	↑	↑	↑
Miscellaneous manufacturing	↓	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↓	↓
Nonmetallic mineral products	↓	↑	↔	↑	↑	↑	↑	↓	↓	↓	↓	↓	↓
Paper products	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↓	↓
Petroleum and coal products	↑	↔	↔	↑	↑	↓	↑	↔	↓	↔	↑	↑	↔
Plastics and rubber products	↓	↑	↑	↓	↑	↑	↑	↑	↓	↑	↑	↑	↑
Primary metals	↔	↔	↓	↑	↑	↑	↔	↑	↑	↑	↑	↑	↑
Printing, related support activities	↓	↔	↓	↑	↑	↑	↑	↔	↑	↓	↑	↓	↓
Textile mills	↔	↑	↑	↑	↔	↔	↔	↑	↔	↔	↔	↔	↑
Transportation equipment	↓	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Wood product	↓	↑	↓	↑	↑	↑	↓	↔	↔	↓	↔	↔	↔
% Better	44%	72%	61%	94%	94%	89%	72%	56%	61%	72%	78%	56%	61%
Unchanged	11%	22%	11%	0%	6%	6%	11%	22%	11%	11%	11%	11%	17%
% Worse	44%	6%	28%	6%	0%	6%	17%	22%	28%	17%	11%	33%	22%
Net % of Industries Improving	0%	67%	33%	89%	94%	83%	56%	33%	33%	56%	67%	22%	39%

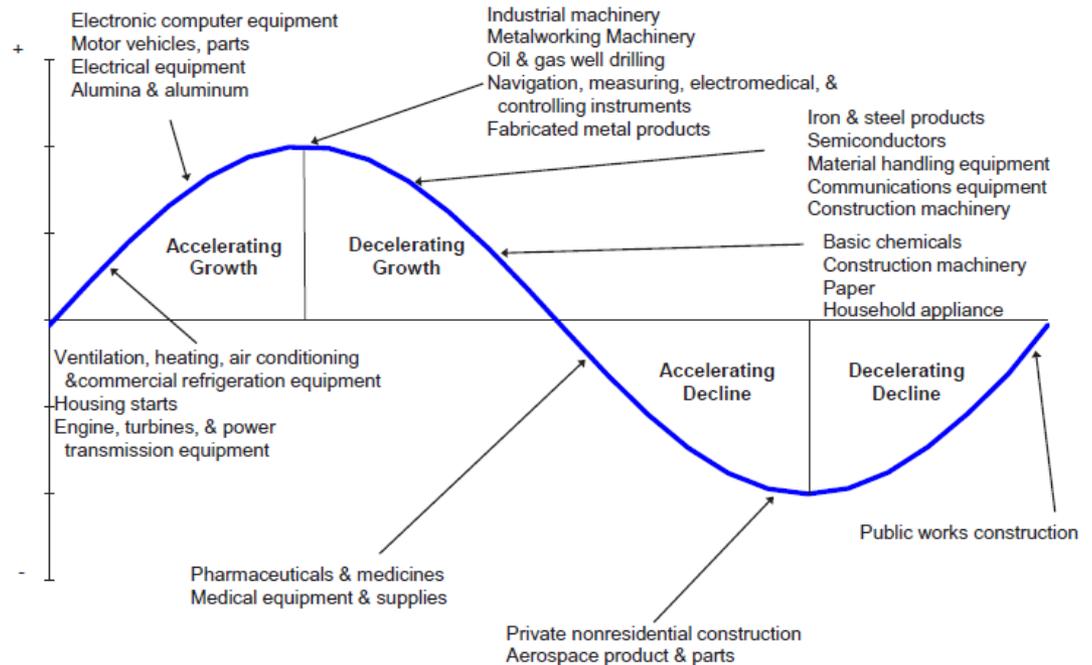
Source: Institute for Supply Management

Source: ISM

Industrial Sector – Phase of Cycle

- The table to the right highlights the MAPI business cycle forecasts for 24 different industrial related end markets.
- In 2011, 19 of the 24 industries are expected to grow. Four industries (household appliances, iron and steel, electric lighting equipment, and private nonresidential construction) are expected to decline.
- For 2012, 23 of the 24 industries are expected to grow with only the public construction industry forecast to decline.

Figure 1
Industrial Sector by Phase of Cycle
October 2010

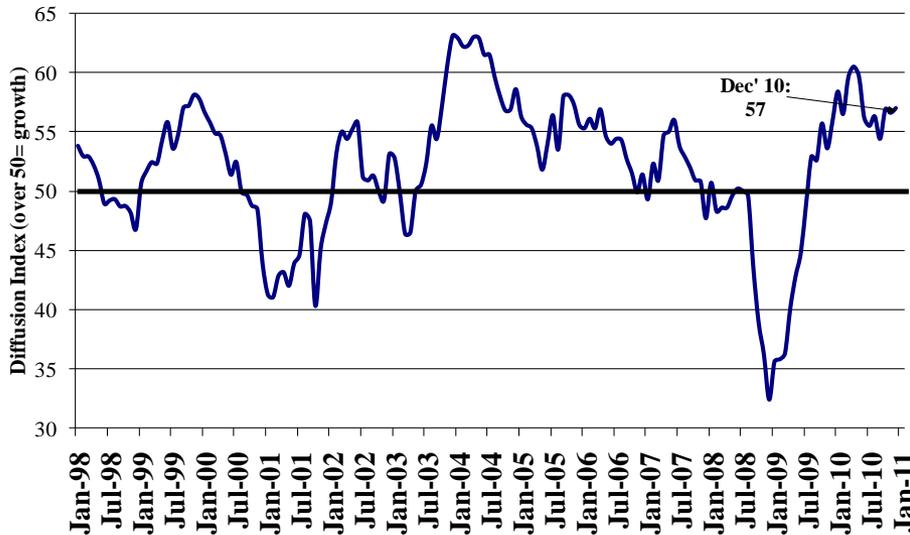


Source(s): Manufacturers Alliance/MAPI

Manufacturing Sector Indicators

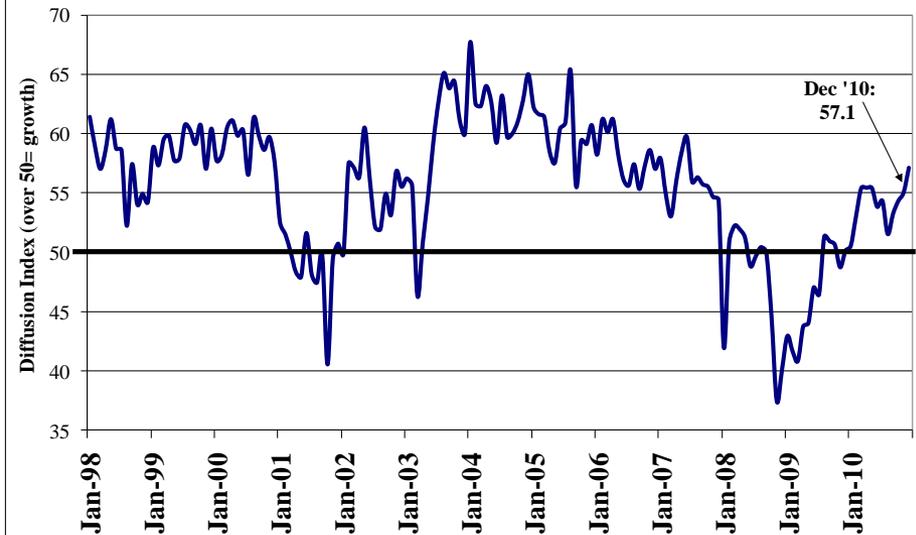
- The ISM Manufacturing index grew to 57 in December from a reading of 56.6 in November. December marks the seventeenth consecutive month above 50, the threshold for growth.
- The non-manufacturing index in December was up to 57.1 from the 55 reading in November, marking the thirteenth consecutive month the index has been above 50, the threshold for growth.
- The charts below illustrate the long-term trends of these indices.

ISM Manufacturing Index



Source: ISM

ISM Non-Manufacturing Index

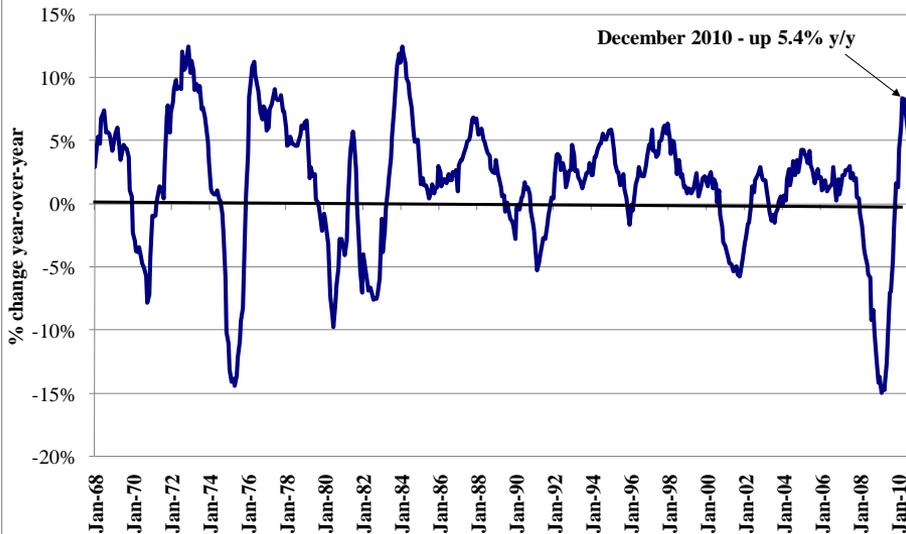


Source: ISM

Manufacturing Sector Indicators

- Manufacturing industrial production was positive y/y in December at 5.4%, slightly up from the 5% growth in November.
- Capacity utilization inched closer was 73% in December, just slightly up from 72.8% in November. This is still at historically low levels and remains well below the threshold (~77-78%) which is generally thought to trigger increased capital spending.

U.S. Manufacturing Industrial Production (excluding high tech)



Source: Census

U.S. Manufacturing Capacity Utilization (excluding high tech)

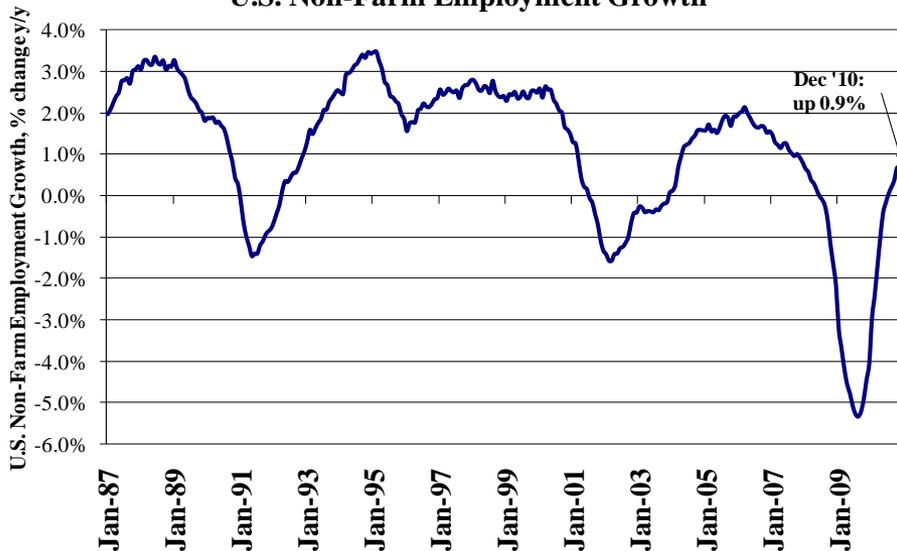


Source: Census

Employment Trends

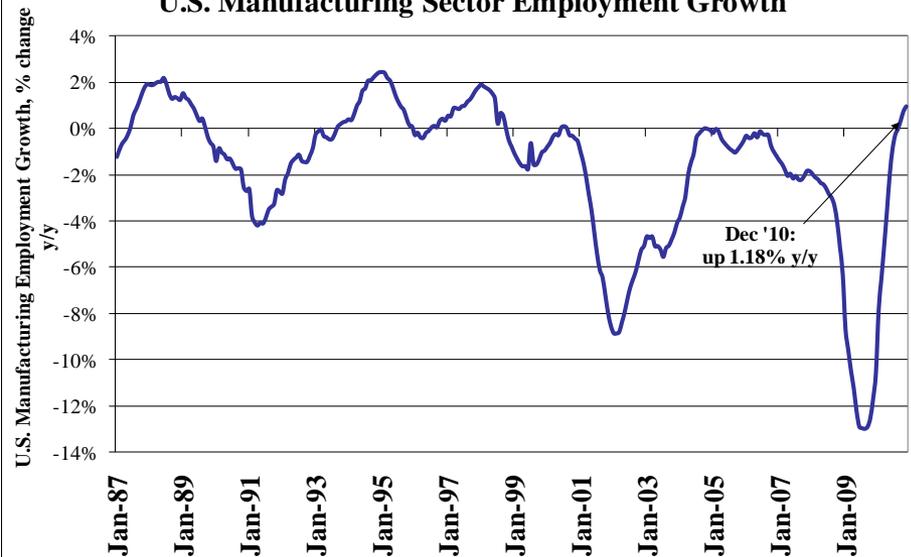
- Non-farm payroll employment was up 0.9% y/y in December, up slightly from the 0.6% y/y growth in November.
- Manufacturing employment continued to improve with growth of 1.2% y/y in December, also up slightly from November's growth which was 0.9%.
- The following charts show the long term employment growth trends for non-farm employment and manufacturing.

U.S. Non-Farm Employment Growth



Source: BLS

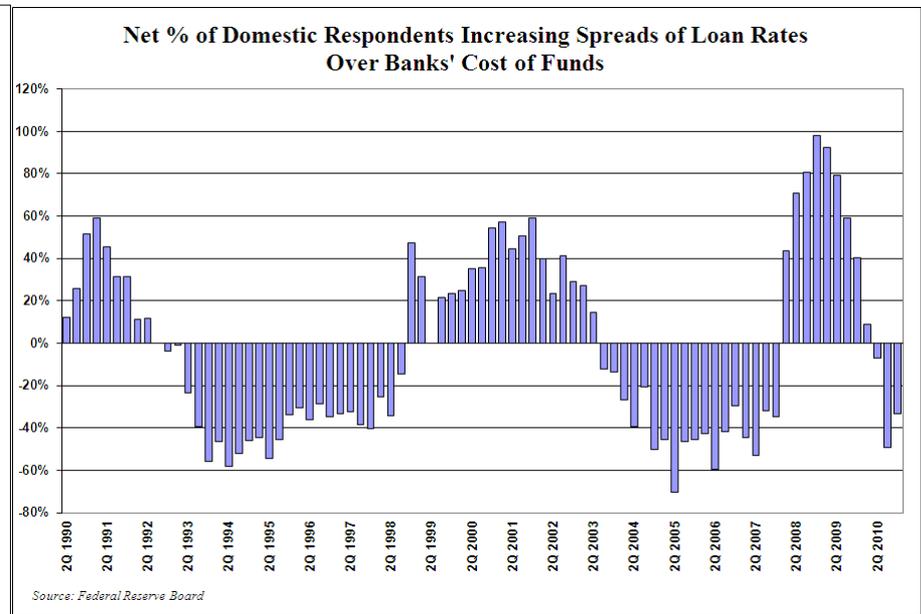
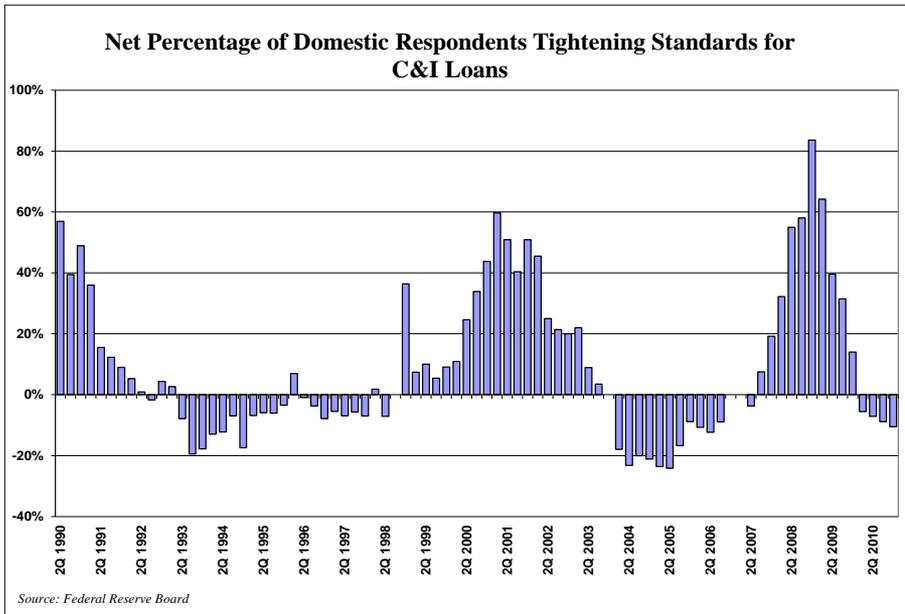
U.S. Manufacturing Sector Employment Growth



Source: BLS

Credit – Lending Standards Continue to Loosen

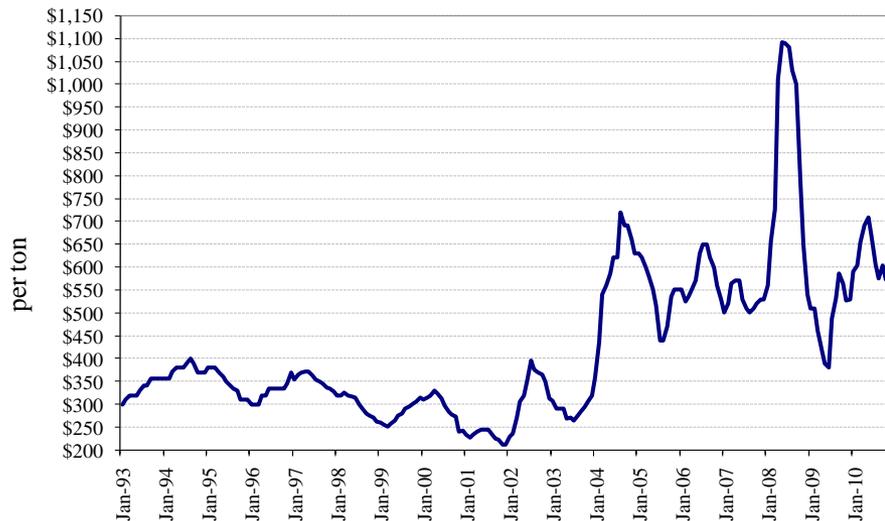
- The 4Q10 Senior Loan Officer survey saw the fourth consecutive loosening of loan standards which began in 1Q following a prolonged period of tightening. A net 11% of loan officers reported loosening credit standards in 4Q10 compared with a net 9% loosening in 3Q10.
- Bank rate spreads contracted again in 4Q with a net 33% of loan officers reported lower lending spreads following an even sharper contraction in 3Q when a net 49% reported lower spreads.
- Despite the more favorable loan standards and cost of funds, a net 7% of loan officers reported weaker demand for commercial and industrial loan demand in 4Q following a modest net 2% reporting increased demand in 3Q.



Commodity Price Trends – Steel

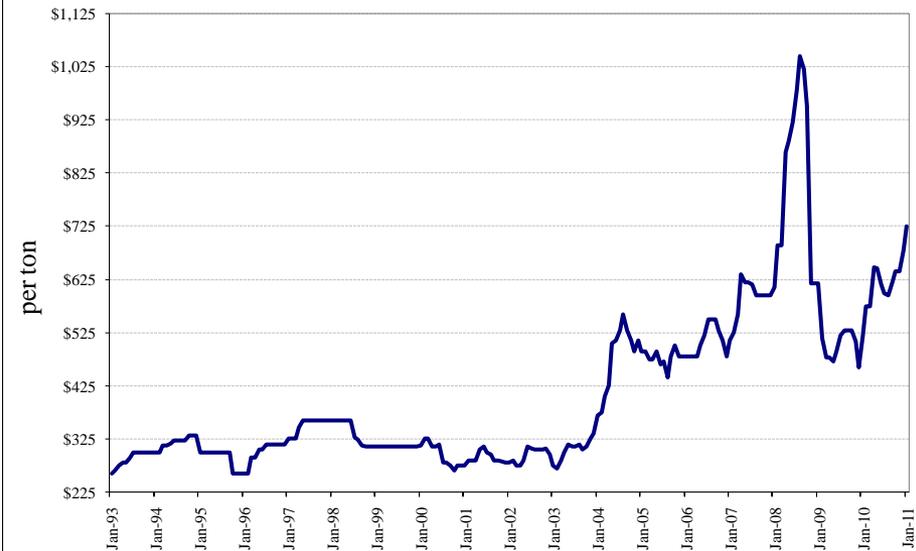
- Steel distributor orders are accelerating in this usually slow period of the year, after below plan orders in October. November and December are running above expectations while demand outlooks for 2011 have increased to up 3-6% from up 1-3% in the Fall.
- Raw material prices continue to increase (particularly scrap which is up \$70 in the last 2 months) which has led to increased inventories in the channel, unlike the summer/early fall when scrap prices were rising without much of an inventory build. Last month steel producers to implemented \$30 per ton increases on hot-rolled coil, and \$20 per ton on longs.
- The following charts show the long term price trends for both hot rolled sheet and rebar prices.

Domestic Hot Rolled Sheet Prices



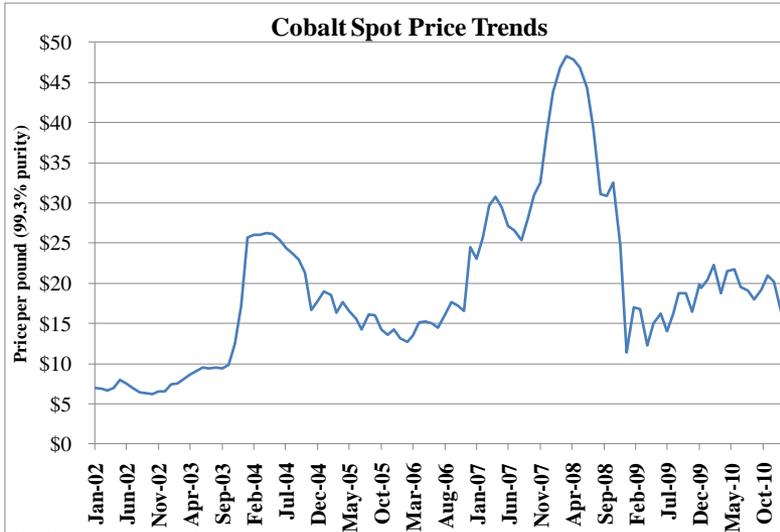
Source: Steel Business Briefing, CRC Estimates

Domestic Reinforcing Bar (Rebar) Prices

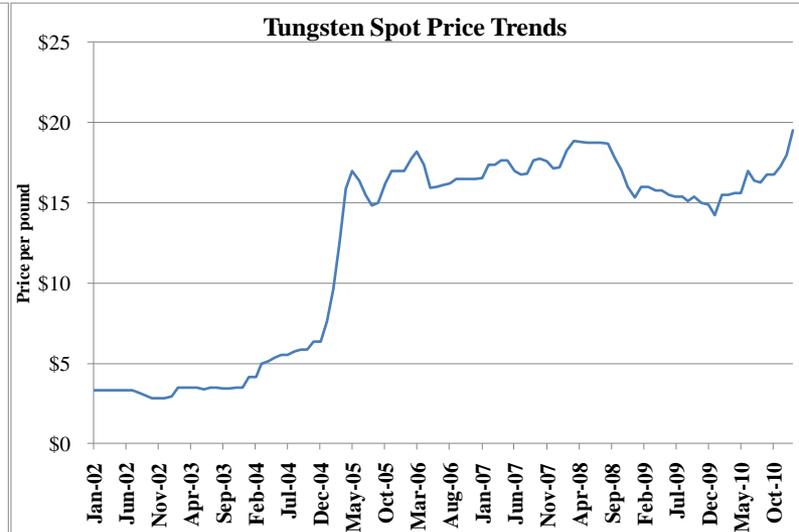


Source: Steel Business Briefing; Energy Information, Baseline

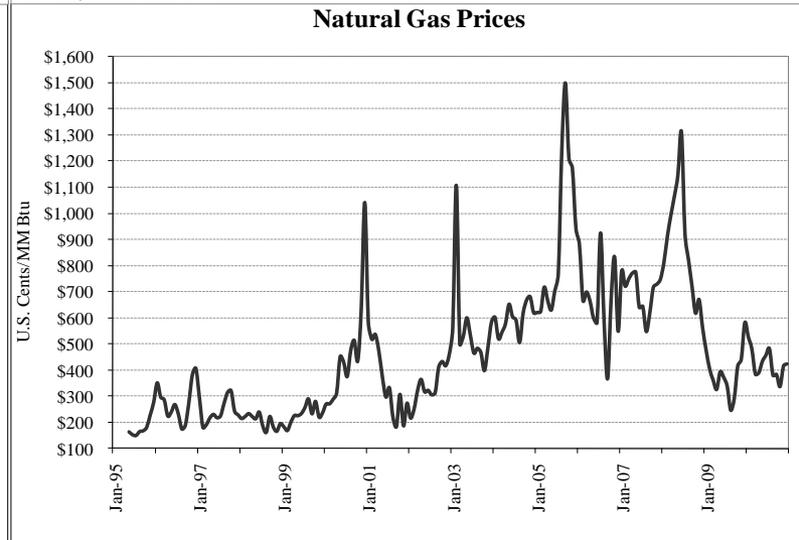
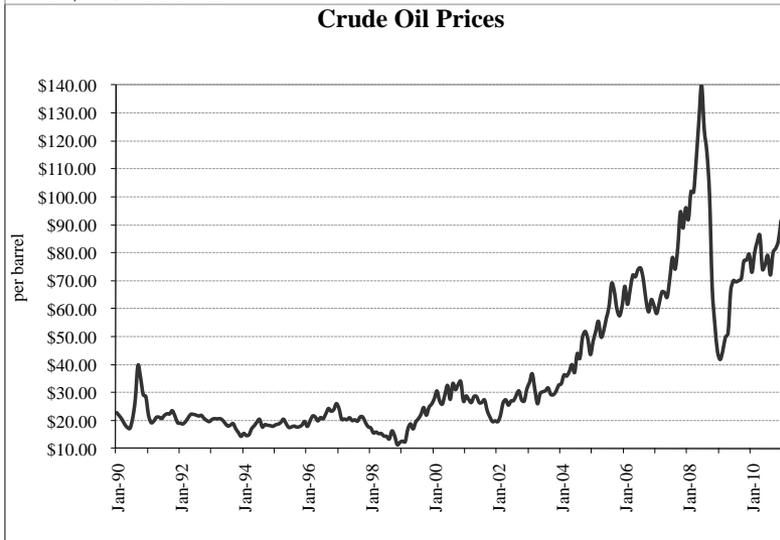
Commodity Price Trends – Cobalt, Tungsten, Oil, Natural Gas



Source: Metalprices.com, Cleveland Research estimates



Source: Metalprices.com, Cleveland Research estimates

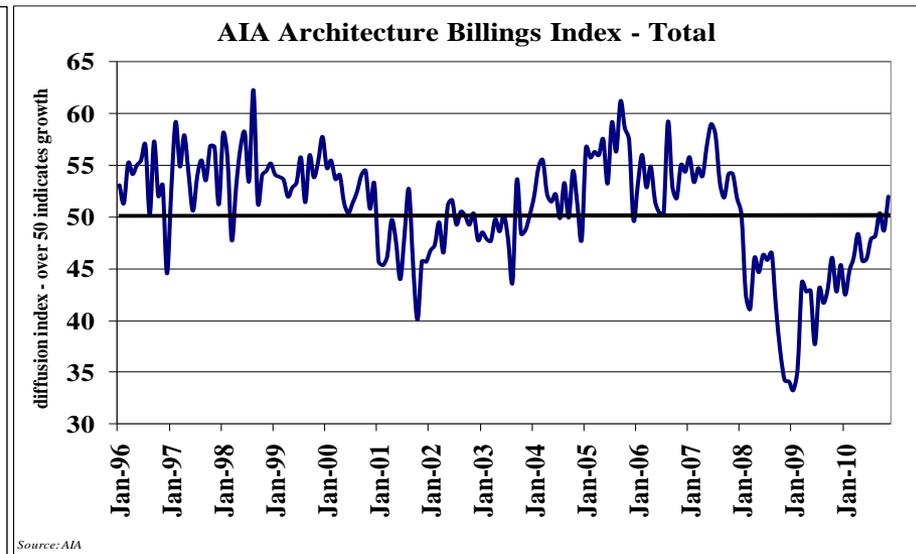
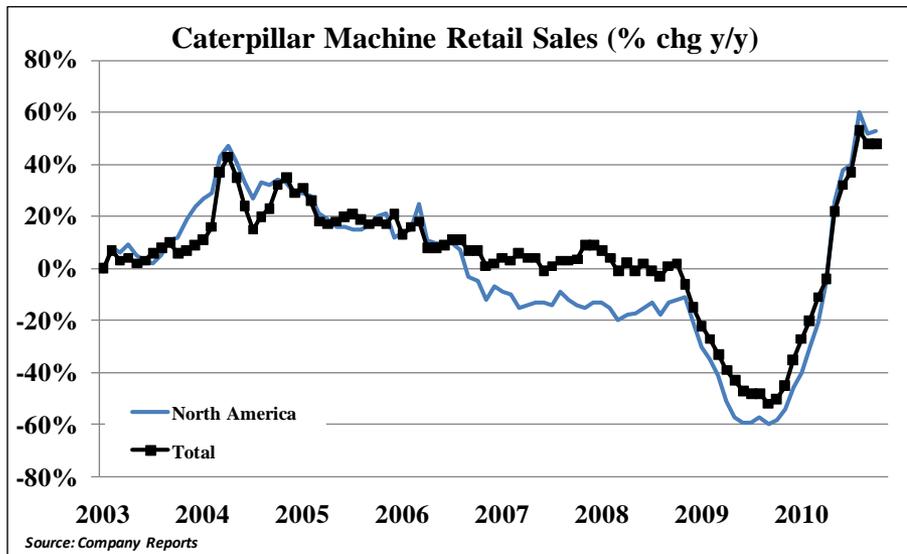
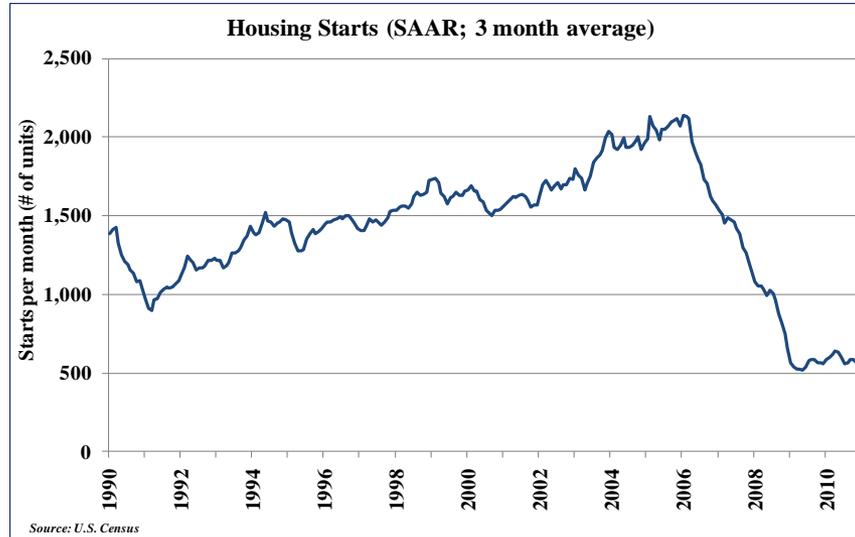


Raw Material Price Trends

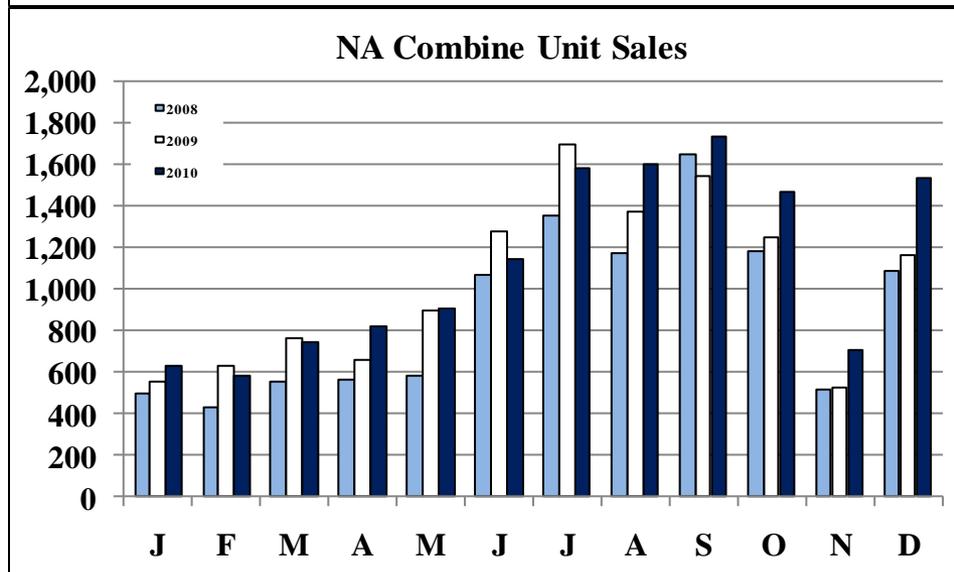
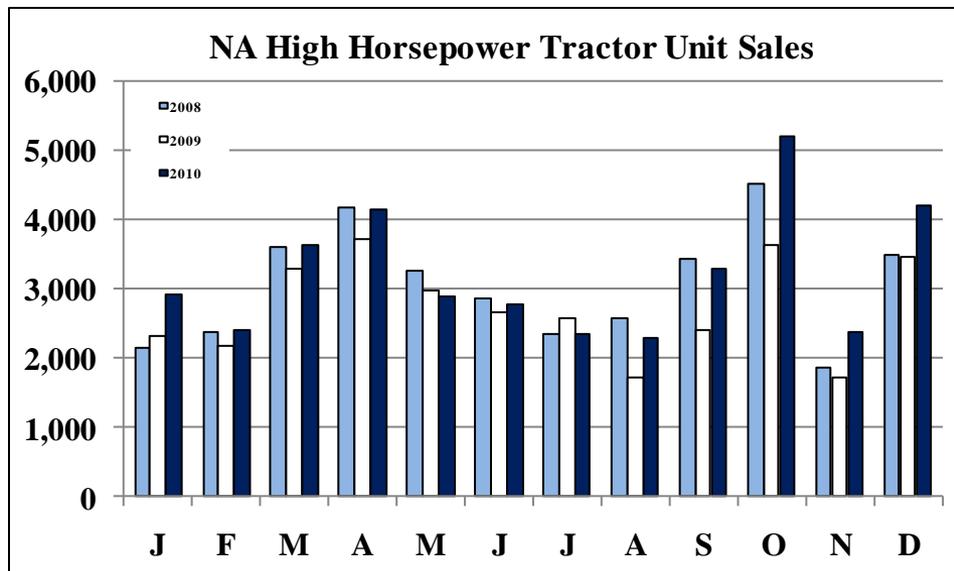
Raw Material Price Changes Over the Last 18 Months

<u>Raw Material</u>	% Change			% Change			% Change	
	Jan-10	Jul-10	from Jan-09	Jan-10	from Jul-09	Jun-10	from Jan-10	Total change from Jan-09
PVC	\$ 0.590	\$ 0.680	153%	\$ 0.770	13%	\$ 0.800	4%	36%
ABS (Acrylonitrile Butadiene Styrene)	\$ 0.980	\$ 0.900	-8.2%	\$ 1.010	12.2%	\$ 0.300	28.7%	32.7%
Aluminum	\$ 68	\$ 90	32.4%	\$ 104	15.6%	\$ 88	-5.4%	29.4%
HIPS (High Impact Polystyrene)	\$ 0.740	\$ 0.910	23.0%	\$ 0.865	-4.9%	\$ 0.910	5.2%	23.0%
Nylon	\$ 1.030	\$ 1.090	5.8%	\$ 1.170	7.3%	\$ 1.390	18.8%	35.0%
PC (Polycarbonate)	\$ 1.550	\$ 1.500	-3.2%	\$ 1.600	6.7%	\$ 0.890	18.1%	21.9%
PE (Polyethylene)	\$ 0.520	\$ 1.650	25.0%	\$ 0.585	-10.0%	\$ 0.605	3.4%	16.3%
Polystyrene	\$ 0.695	\$ 0.865	24.5%	\$ 0.815	-5.8%	\$ 0.841	3.1%	20.9%
PP (Polupropylene)	\$ 0.420	\$ 0.605	44.0%	\$ 0.760	25.6%	\$ 0.745	-2.0%	77.4%
Steel - Cold-Rolled (China)	\$ 569	\$ 646	13.5%	\$ 709	980.0%	\$ 644	-9.2%	13.2%
Steel - Cold-Rolled (Domestic)	\$ 580	\$ 540	6.9%	\$ 595	10.2%	\$ 735	23.5%	26.7%
Steel - Wire Rod (China)	\$ 486	\$ 507	4.3%	\$ 538	6.1%	\$ 528	-1.9%	8.6%
Steel - Wire Rod (Domestic)	\$ 890	\$ 525	-41.0%	\$ 635	21.0%	\$ 745	17.3%	-16.3%
Total group								25.0%

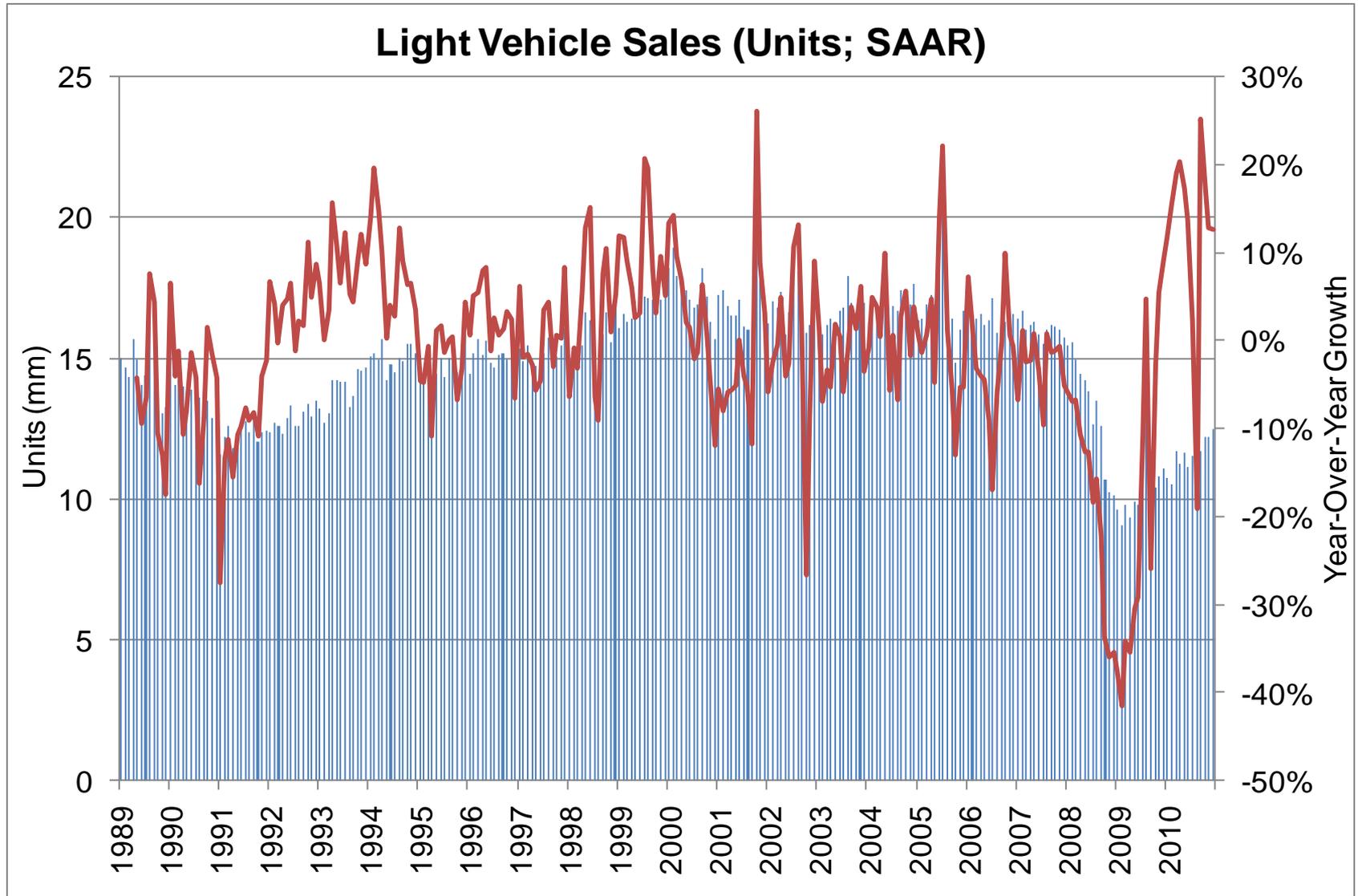
Construction Indicators



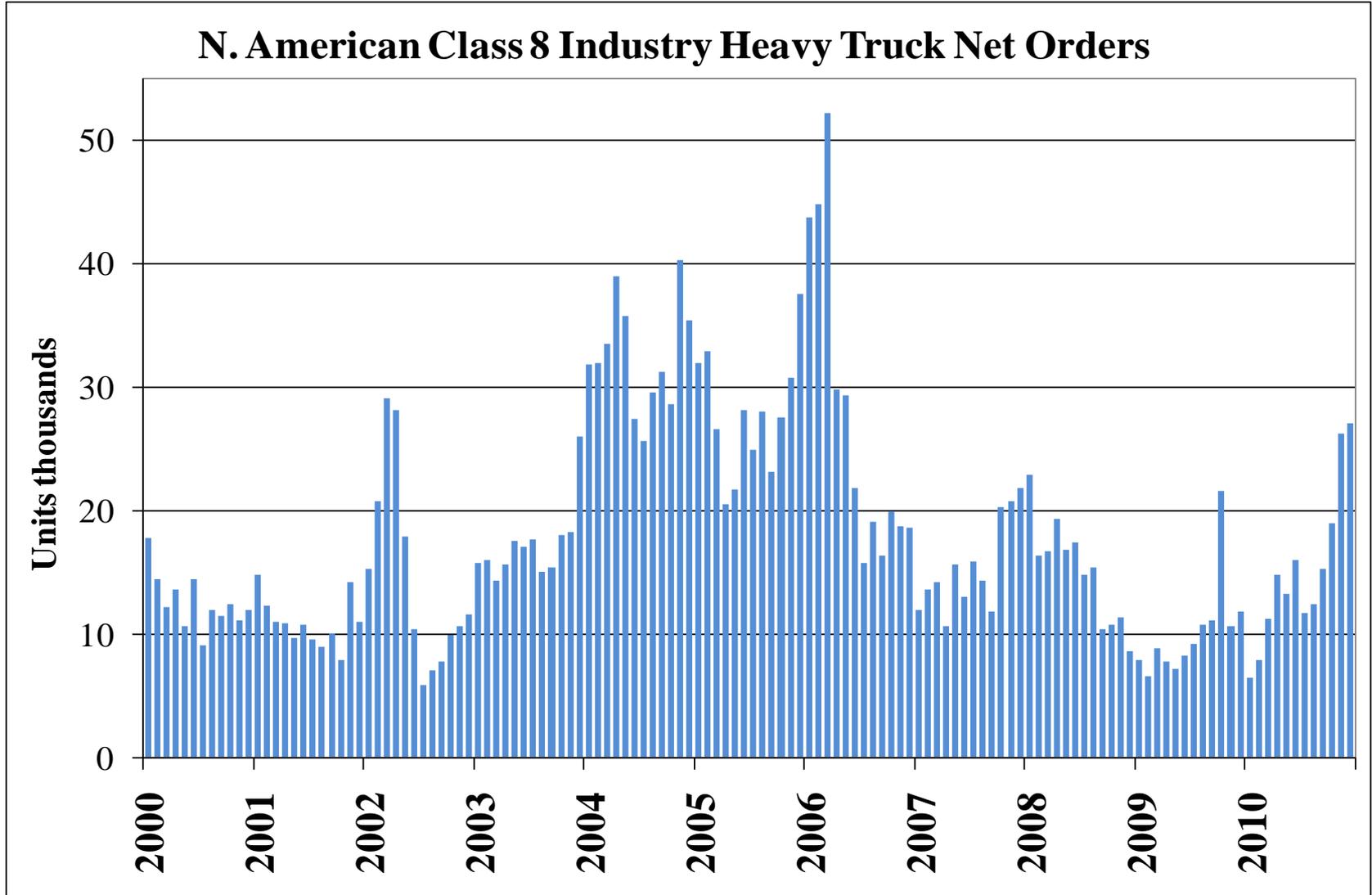
Ag Indicators



Automotive Trends



Heavy-Duty Truck

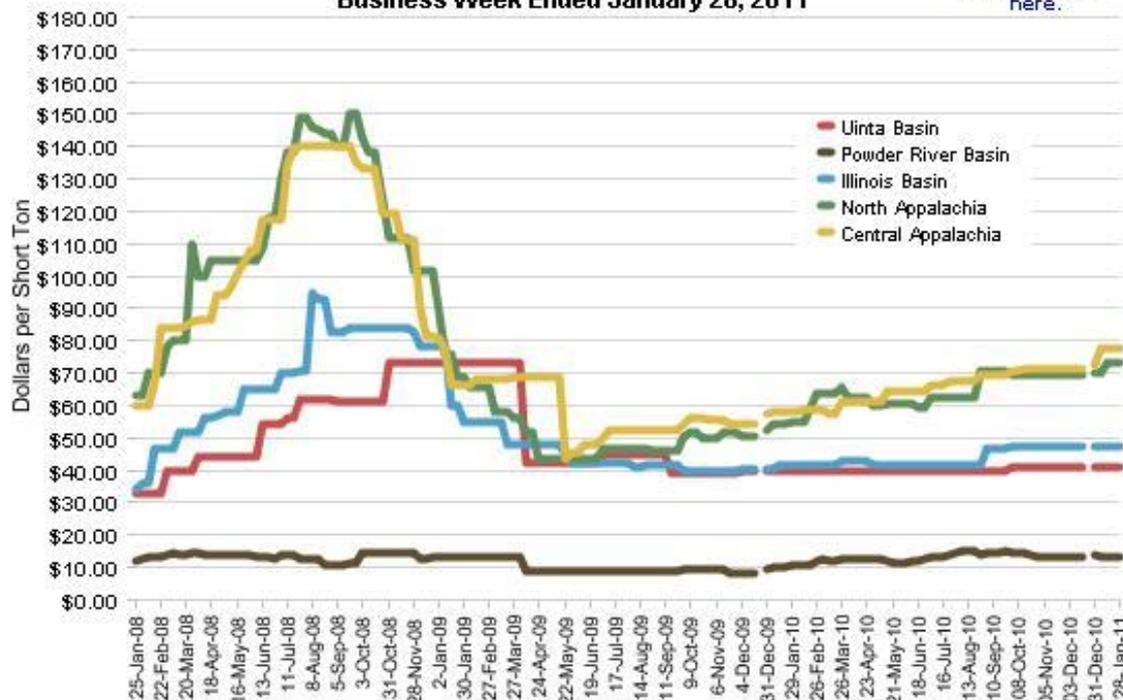


Coal Mining – Domestic Coal Prices

Regional Coal Price Trends

**Historical Average Weekly Coal Commodity Spot Prices
(Dollars per Short Ton)
Business Week Ended January 28, 2011**

For JPG click
here.



Key to Coal Commodities by Region¹

Central Appalachia: Big Sandy/Kanawha 12,500 Btu, 1.2 lb SO₂/mmBtu

Northern Appalachia: Pittsburgh Seam 13,000 Btu, <3.0 lb SO₂/mmBtu

Illinois Basin: 11,800 Btu, 5.0 lb SO₂/mmBtu

Powder River Basin: 8,800 Btu, 0.8 lb SO₂/mmBtu

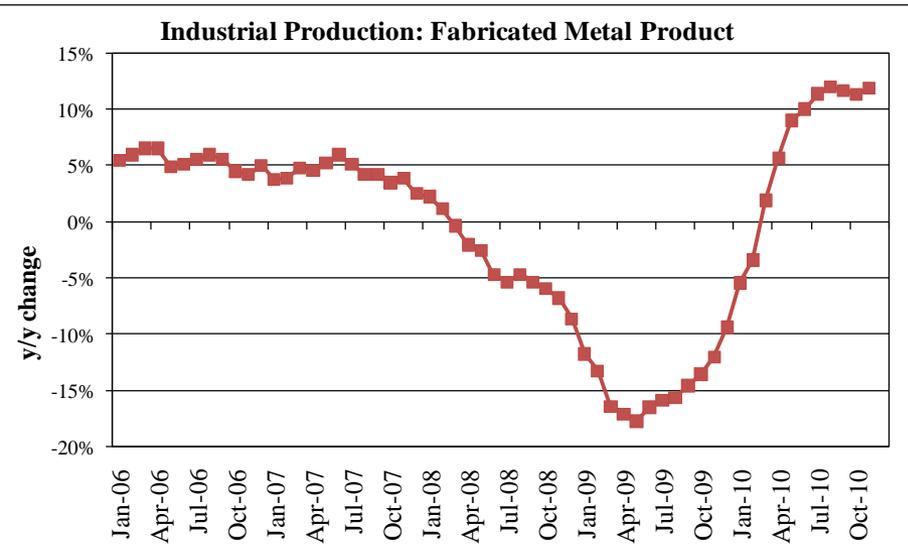
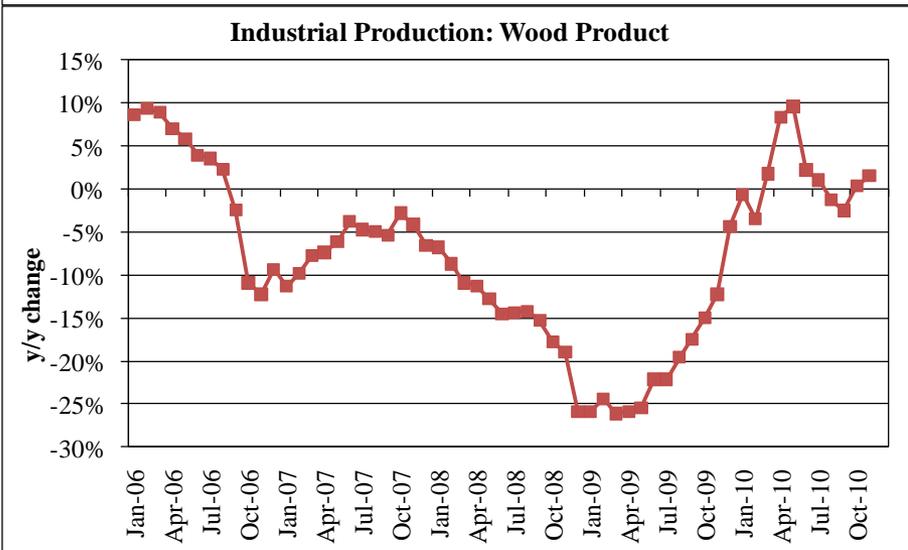
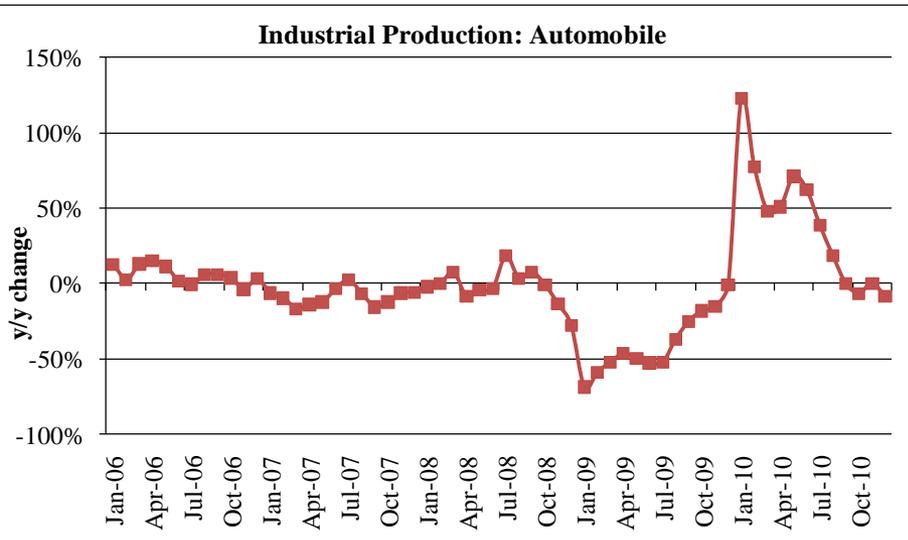
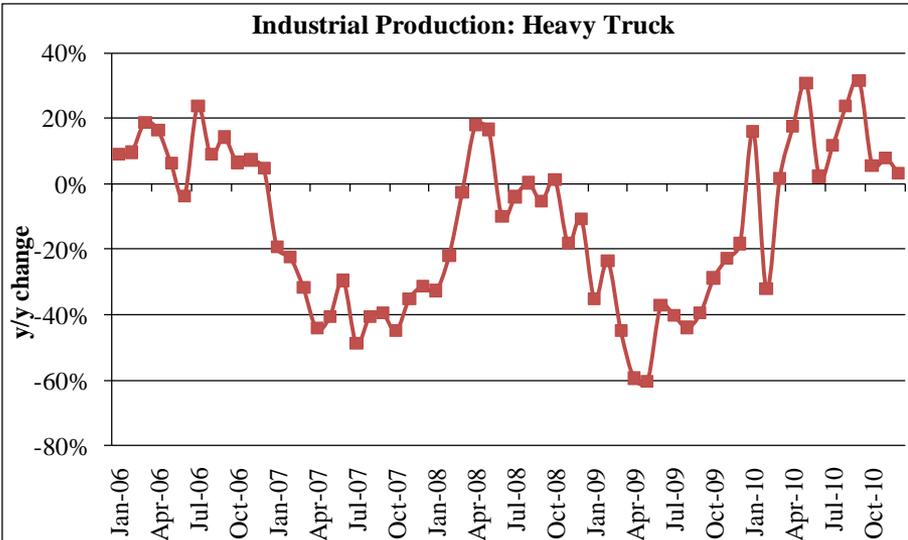
Uinta Basin in Colo.: 11,700 Btu, 0.8 lb SO₂/mmBtu

¹ Coal prices shown are for a relatively high-Btu coal selected in each region, for delivery in the "prompt quarter." The prompt quarter is the quarter following the current quarter. For example, from January through March, the 2nd quarter is the prompt quarter. Starting on April 1, July through September define the prompt quarter.

Source: With permission, selected from listed prices in Platts Coal Outlook, "Weekly Price Survey."

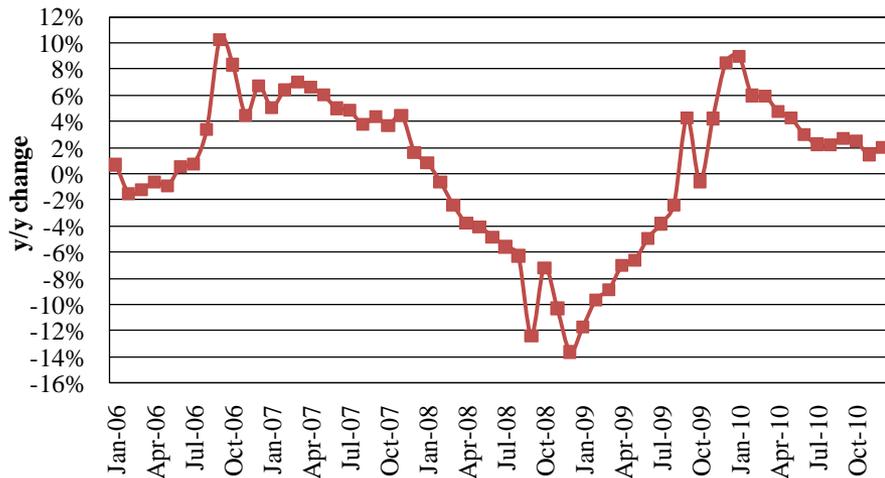
Note: The historical data file of spot prices is proprietary and cannot be released by EIA; see Coal News and Prices.

Production Growth Rates by Industry

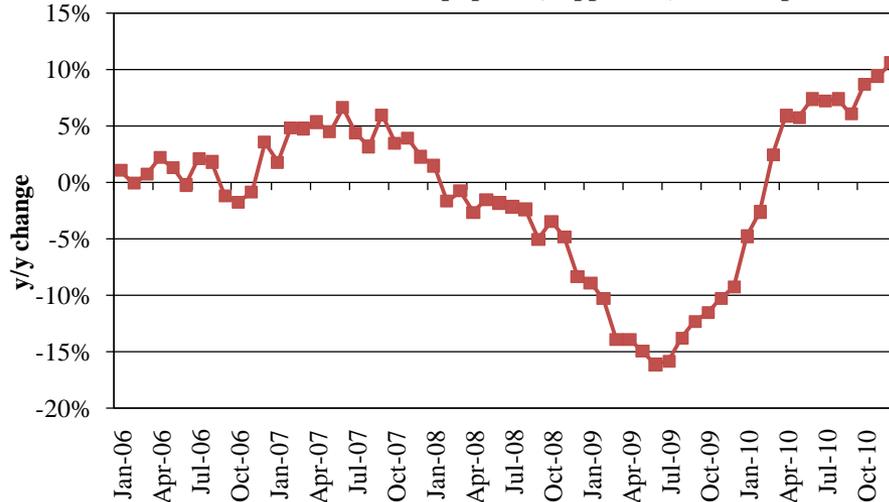


Production Growth Rates by Industry

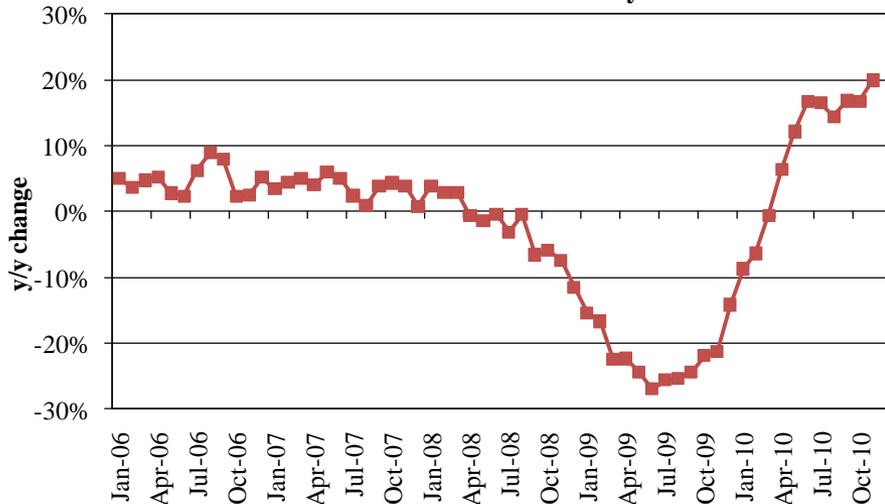
Industrial Production: Chemical



Industrial Production: Electrical Equipment, Appliance, and Components



Industrial Production: Machinery



Industrial Production: Aerospace

