

Pricing Trends/Market Size Insight for Rubber Products

## Quarterly Pricing Trends

The Producer Price Index (PPI) data presented here provide a snapshot in time of pricing trends for five common industrial product groups sold by NAHAD members. This report provides a national benchmark and comparison of the latest quarterly data with the previous quarter and the same quarter of the previous year. It represents trends in selling prices received by domestic producers and is a good barometer for inflationary pressures felt at the wholesale level.

During the fourth quarter, most core NAHAD-member product categories showed a mild increase in selling prices at the domestic producer level except for Transmission Belt and Seals & O-Rings. Both experienced a slight decrease, but selling prices show a mild increase again. Conveyor Belt Pricing has moderated throughout the last quarter of 2017 after a spike in the third quarter.

| Product Categories | Quarterly % Change<br>3Q17:4Q17 | Annual % Change<br>4Q16:4Q17 |
|--------------------|---------------------------------|------------------------------|
| Hydraulic Hose     | N/A                             | N/A                          |
| Industrial Hose    | +0.3                            | +0.3                         |
| Conveyor Belt      | + 2.3                           | + 11.1                       |
| Transmission Belt  | + 0.4                           | + 1.7                        |
| Seals & O-Rings    | + 0.2                           | + 1.2                        |

Source: Quarterly Producer Price Index, U.S. Bureau of Labor Statistics. For more detail on pricing trends methodology, see appendix at the end of this report.

Quarterly Pricing Trends:

### Hose – Hydraulic/Industrial

- Pricing for Industrial Hose products experienced a mild price increase into the fourth quarter after staying flat in the third quarter of 2017

#### Hydraulic Hose

NOTE: The Hydraulic Hose Producer Price Index has not been updated so is not included in this quarter's data

#### Industrial Hose

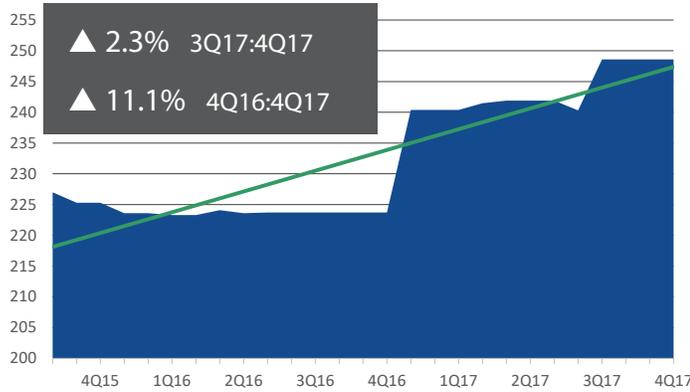


Quarterly Pricing Trends:

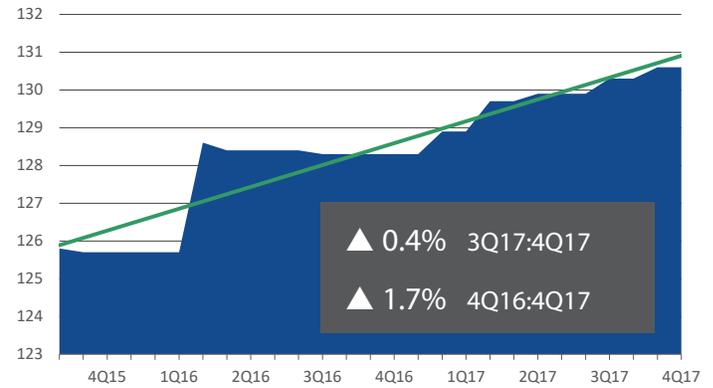
### Belt – Conveyor/Transmission

- Pricing for Belting products stay flat into fourth quarter of 2017.
- Conveyor Belt pricing jumped 11.1% year-to-year, the largest annual change of all product categories.
- Transmission Belt pricing rose slightly into the fourth quarter of 2017.

#### Conveyor Belt



#### Transmission Belt

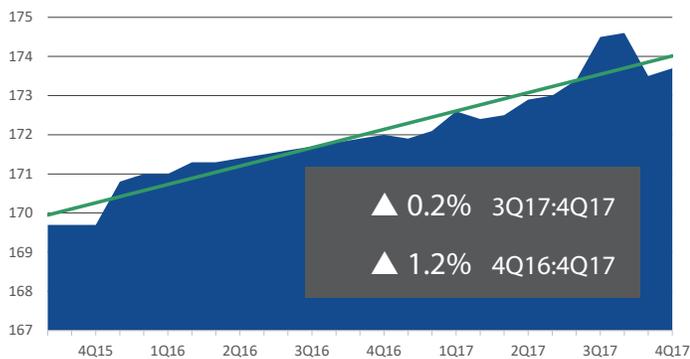


Quarterly Pricing Trends:

### Seals & O-Rings

- The Seals & O-Rings pricing index stays steady in the fourth quarter after a mild spike into the beginning of the quarter.
- There was a continued steady pricing increase trend in 2017 over 2016.

#### Seals & O-Rings



The indices above are derived from the Producer Price Index, published monthly by the U.S. Bureau of Labor Statistics, which measures the average change over time in selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services. The data from the Producer Price Index tracks wholesale prices, making this index the best source of price trend data for wholesale distribution markets.

## Annual Market Size – Rubber Products

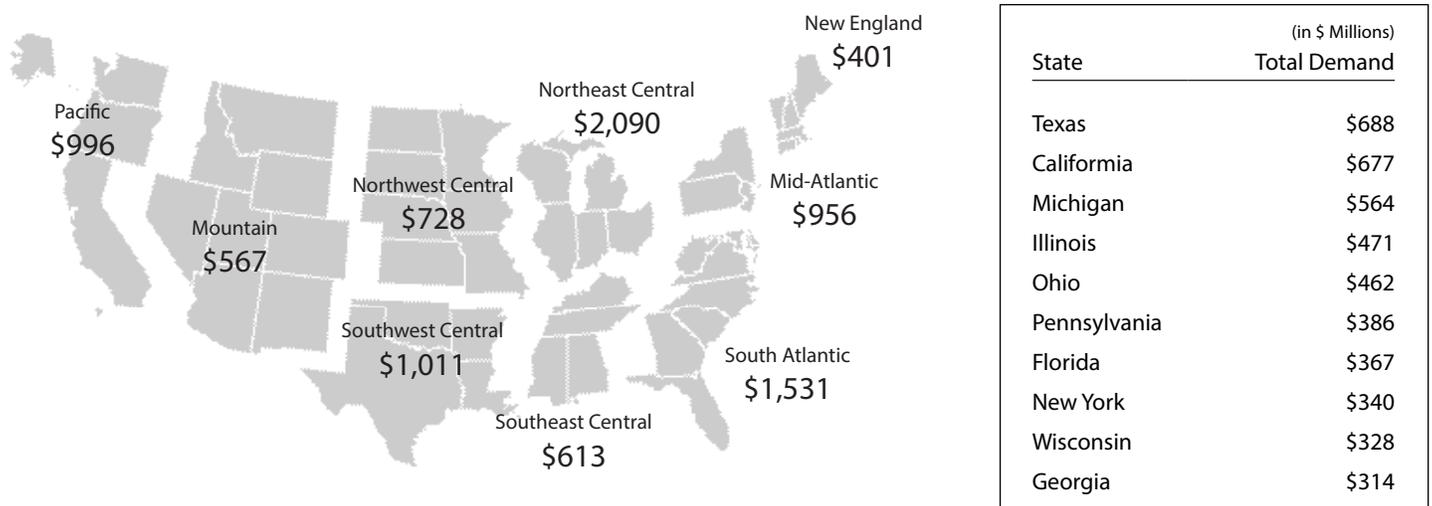
The annual market size rose 3.0 percent in 2017 for the five industrial product categories listed below and is estimated at \$8.9 billion. Demand for all five of the product categories increased year-to-year, reflecting overall trends across industrial production indicators for key customer segments in mining, energy, industrial and construction markets. The overall Industrial Production Index, a key measure of U.S. manufacturing activity, showed a slight increase in 2017.

| Product Categories            | 2017 Estimated Market Size<br>(in \$ Millions) | Annual % Change<br>1Q17:1Q18 |
|-------------------------------|--|------------------------------|
| Hydraulic Hose                | \$1,864  | +2.7%                        |
| Industrial Hose               | \$2,151  | +2.8%                        |
| Conveyor Belt                 | \$1,735  | +2.8%                        |
| Transmission Belt             | \$774  | +2.7%                        |
| Seals & O-Rings               | \$2,370  | +3.8%                        |
| <b>Total Market Potential</b> | <b>\$8,893</b>                                 | <b>+3.0%</b>                 |

Source: MDM Analytics

## Annual Market Size – Regions/Top 10 States (2017 data)

National Rubber Products Market Size = \$8.9 Billion



All market size analysis in this report is based on five product categories defined at the end of this report. The data reflect estimates of end-use consumption, on an annual basis in U.S. dollars, for maintenance, repair, and operations (MRO) and original equipment manufacturer (OEM) business segments.

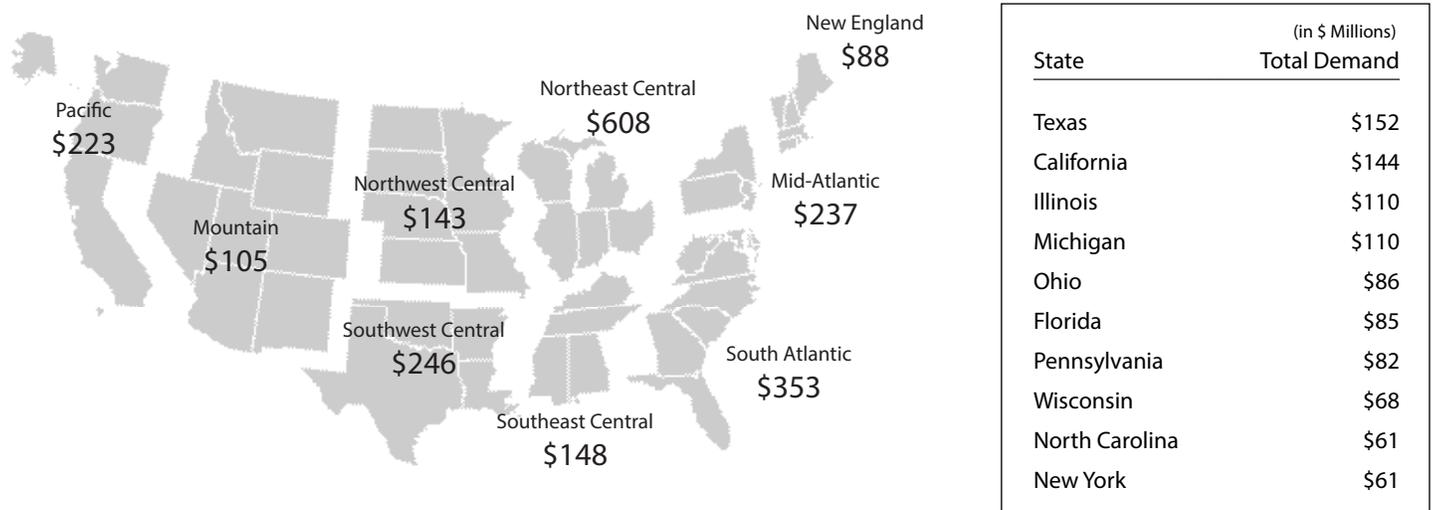
Each quarter, this page profiles a different product category to provide a more in-depth look at the size and make-up of the key customer segments for that category.

## Market Size Profile – Industrial Hose

The size of the U.S. Industrial Hose market is \$2.2 billion, according to estimates by MDM Analytics. This page profiles how demand for Industrial Hose is segmented regionally, across the top 10 states by demand, and the top 10 customer sectors that consume Industrial Hose, which account for 43 percent of the total market size. Market size is defined as the total available market at the end-user customer level, including a distributor margin estimate, to provide a “street” price estimate, in U.S. dollars.

### Market Size – Regions/Top 10 States (2017 data)

Industrial Hose Market Size = \$2.2 Billion



### Annual Market Size – Top 10 Customer Segments (2017 data)

| NAICS 6 | Description   | (in \$ Millions) |          |
|---------|---|------------------|----------|
|         |   | Industrial Hose  | Accounts |
| 336111  | Automobile Manufacturing                            | 267              | 1,321    |
| 238220  | Plumbing, Heating, and Air-Conditioning Contractors | 232              | 182,551  |
| 336390  | Other Motor Vehicle Parts Manufacturing             | 135              | 4,427    |
| 322121  | Paper (except Newsprint) Mills                      | 120              | 1,884    |
| 324110  | Petroleum Refineries                                | 75               | 1,858    |
| 322130  | Paperboard Mills                                    | 68               | 830      |
| 333415  | HVACR Equipment Manufacturing                       | 55               | 2,923    |
| 336120  | Heavy Duty Truck Manufacturing                      | 48               | 506      |
| 325199  | All Other Basic Organic Chemical Manufacturing      | 48               | 1,913    |
| 325180  | Other Basic Inorganic Chemical Manufacturing        | 42               | 2,950    |

## Product Category Definitions

The market analysis in this report defines the following five product categories in the following manner, using standardized classifications based on the U.S. Census Bureau's NAICS product codes, as well as the U.S. Bureau of Labor Statistics (BLS) Producer Price Index Commodity Codes. See Methodology and Data Sources below for more detail.

### Hydraulic Hose

This category is defined by BLS as All Other Hydraulic/Pneumatic Hose.

### Industrial Hose

This category is defined by BLS as Industrial Rubber/Plastics Hose.

### Conveyor Belt

This category is defined by BLS as Flat Rubber/Plastics Belts and Belting.

### Transmission Belt

This category is defined by BLS as Rubber/Plastics Belts and Belting, except flat rubber, including motor vehicle rubber/plastics transmission belts and belting.

### Seals & O-Rings

This category is defined by BLS as Packing and Sealing Devices, which includes compression packings, molded packing and sealing devices, rotary oil seals, and axial mechanical face seals and parts.

## Regional Territory Definitions

This report uses the nine statistical divisions defined by the U.S. Census Bureau. States included in each division:

### Division 1: New England

Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont

### Division 2: Mid-Atlantic

New Jersey, New York, Pennsylvania

### Division 3: Northeast Central

Illinois, Indiana, Michigan, Ohio, Wisconsin

### Division 4: Northwest Central

Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota

### Division 5: South Atlantic

Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia

### Division 6: Southeast Central

Alabama, Kentucky, Mississippi, Tennessee

### Division 7: Southwest Central

Arkansas, Louisiana, Oklahoma, Texas

### Division 8: Mountain

Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming

### Division 9: Pacific

Alaska, California, Hawaii, Oregon, Washington

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## Methodology & Data Sources

The data in this report was compiled by MDM Analytics, formerly Industrial Market Information, Inc., a subsidiary of Gale Media, Inc., Lafayette, CO, using an econometrics model developed more than 30 years ago. MDM Analytics' databases provide information on the potential demand for a wide range of key industrial goods across the hundreds of industries encompassed by the North American Industry Classification System (NAICS) system for North America. The following is a general overview of the methodology used to develop MDM Analytics' key reports.

All market analysis in this report is based on five product categories defined above. The data reflect estimates of end-use consumption, on an annual basis in U.S. dollars, by maintenance, repair, operations and production (MROP) accounts, and original equipment manufacturer (OEM) accounts.

First, a total market size for each product category is established using the U.S. Census Bureau's five-year Economic Census together with its Annual Survey of Manufactures. This mandatory survey of U.S. manufacturers is conducted at a granular product level using standardized NAICS-based product codes, which MDM Analytics aggregates into specific product class and category groupings. Imports-Exports are then factored and a distributor margin is added to estimate an end-user customer, or "street-level," market sizing nationally.

Consumption rates for MRO products at a given account location are largely driven by the type of manufacturing or unique industry-sector processes and number of employees at a location. This demand relationship can be used to model market potential for defined territories at the county level and higher based on a territory's unique composition of industries and the number of employees in those industries.

Continued next page

MDM Analytics' proprietary statistical model segments the national demand for each product category based on its unique historical consumption patterns by each 6-digit NAICS industry sector. Then the total employment of each industry is divided into the total annual market size to arrive at the dollar-per-employee ratio. Market potential can then be estimated by modeling the types of end-market industries and their size in a given territory. In effect, the "DNA" of a territory and its estimated consumption patterns for defined industrial product categories can be estimated.

This NAHAD Markets Monitor report updates market size estimates annually based on change in employment by sector at a county level, as well as a proprietary model using a number of industry sector indices for manufacturing, construction, mining and energy sectors. U.S. employment is measured by 6-digit NAICS industry sector at a county level, sourced through a combination of U.S. Bureau of Labor Statistics, Dun & Bradstreet and private databases. Annual market size estimates are revised with additional input and validation from annual Census data.

### Quarterly Pricing Trends Methodology

Data presented here provide a snapshot in time of wholesale pricing trends in five common industrial product groups sold by NAHAD members. The report provides comparison of the latest quarterly data with the previous quarter and the same quarter of the previous year.

The NAHAD Markets Monitor quarterly pricing trends report is based on the Producer Price Index (PPI) published by the U.S. Bureau of Labor Statistics. Quarterly percent change, which is not reported by the U.S. government, is calculated by MDM editors based on quarterly averages using a method developed after consulting with the BLS.

The PPI program measures the average change over time in selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services. The data from the Producer Price Index tracks wholesale prices, making this index the best source of price trend data for the wholesale distribution market. The PPI does not measure the cost of producing an item.

Indexes are organized in three major structures: stage of processing (organized by class of buyer and degree of fabrication); industries and their products (organized by producing industry as defined by NAICS); and type of commodity (organized by similarity of end use or material composition).

To calculate its item-specific index each quarter, MDM uses the PPI organized by commodity. This provides the greatest detail for specific products. It also provides a great deal of historical data. The downside to the commodity index coding system is that no other governmental statistical program uses it. Commodities are grouped according to similarity of material composition and end use, regardless of industry of origin. Because of this, they are not organized by NAICS (North American Industry Classification System).

In addition, when using the commodity indexes, it is inadvisable to roll up products into one overarching index without accounting for double-counting due to stages of processing. This is why MDM presents data at a lower level and as close to an individual product basis as possible, rather than presenting a total index for the products. For overall percent changes by industry (NAICS) or level of processing (crude vs. finished, for example), businesses should use the stage of processing or industry indexes at [www.bls.gov/ppi](http://www.bls.gov/ppi).

#### How Firms Use the Producer Price Index

According to the BLS, businesses often employ price adjustment clauses in long-term sales and purchase contracts, frequently using the PPI family of indexes, either alone or in conjunction with other sources of economic data. Because the PPI indexes measure price changes objectively, the PPI calculated by the Bureau of Labor Statistics are widely recognized among businesses, economists, statisticians and accountants as useful for this purpose.

To learn more about the development of escalation clauses in contracts tied to PPI data, as well as potential challenges in doing so, visit this website: <http://www.bls.gov/ppi/ppi-escalation.htm>.

MDM Analytics does not encourage or discourage the use of price adjustment measures in purchase and sales agreements.

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