

Overview of the hardware trade in 2009:

Consistent development in the hardware retail trade — production-associated trade under strong pressure

This year was mainly characterised by the economic crisis. The hardware trade could not completely escape this development, although its distribution channels were hit to varying degrees. Whereas the economic downturn had scarcely anything effect on the hardware retail trade, the production-associated trade that serves commercial customers had, in some cases, been considerably impacted by the downturn.

a) Retail trade of hardware and household goods and equipment

The retail trade of hardware and household goods has profited from a very stable domestic economy. The reason for this was the greater financial leeway of the consumers, which is the direct result of lower inflation rates, decreased energy costs and good wage agreements. Trends such as convenience and homing are also led to an increase in demand in the hardware sector. In addition, there was also an increasing demand among consumers for brand-name and quality products, expert advice and services.

Consequently, the product ranges of tools, security technology and household goods reported turnover increases. This was due to an increased demand for small electrical appliances and grills, fire alarms and access control systems, as well as new tools and machines. Development was weaker among the fittings, hardware and electrical garden appliances segments. The service sector is steadily becoming more and more important in many areas of the hardware trade. The security specialist trade, as well as the motor and kitchen specialist trades, had managed to generate sustainable turnover increases from these services in particular, which had allowed them to compensate for losses from the decline in product sales. However, regular events and customer loyalty schemes are necessary in the hardware trade to motivate customers to make purchases. The higher average totals on the customers' receipts confirmed the success of such measures and reveal the consumers' willingness to spend their money on useful, high-quality and beautiful items.

The following table provides an overview of the development:

	2004	2005	2006	2007	2008	First half of 2009	Forecast for full-year 2009
Household goods specialist trade	-4.1	-3.5	-2.8	-2.1	-1.8	+0.5	+0.7
Hardware trade, total	-3.6	-2.8	+2.1	-0.4	+1.5	+0.2	+0.7
Retail trade, total	+2.0	+1.8	+0.6	+1.0	+1.1	-2.3	-1.9

Source: ZHH, Federal Statistical Office

However, we should expect a difficult situation in 2010. The economic crisis will probably start to impact the German job market. This will lead to higher unemployment and have a negative effect on the domestic economy. It is currently not possible to say to what extent this development will affect turnover in the hardware sector. However, the economic institutes are forecasting a slight upswing in 2010, which means that large losses are unlikely.

b) Production-associated trade in tool and construction fittings

In contrast to the hardware retail trade, the production-associated trade in tools and construction fittings was truly feeling the consequences of the economic crisis. In some cases, the production-associated trade suffered considerable declines in turnover in the first half of the year. The causes of this slump was drastic declines in all metalworking, tool and machine manufacturing segments, as well as a clear decrease in commercial and residential construction and a waning demand from the skilled trades. The sudden and dramatic decrease in raw material prices had also left its mark. In light of this situation, the results of the internal surveys concerning the development of the tools and fittings segments of the production-associated trade are as follows (real changes in turnover):

	2004	2005	2006	2007	2008	First half of 2009	Forecast for full-year 2009
Tools	+0.3%	-1.3%	+4.1%	+4.8%	+1.8%	-11.8%	-10.9%
Construction fittings	-1.2%	-2.9%	+5.5%	+3.4%	+2.6%	-2.9%	-2.5%

Source: Economic surveys by the Central Association of the Hardware Trade (ZHH)

Conditions in the segment of construction fittings was not deteriorating as much as expected when compared to the other production-associated trade segments. The reason for this development was the construction fittings' greater dependence of the construction sector and the skilled trades, which had affected much less by the crisis compared to the metalworking sector and the exporting industries. In the area of windows, the construction fittings trade additionally profited from people's need to save energy. The economic stimulus packages that

were introduced by the German government are also beginning to bear fruit. One could clearly see a recovery in public sector construction since May, which continued in the second half of the year and had a positive effect on the production-associated trade of construction fittings. This means that no further decline in the segment of construction fittings is expected in 2009.

It is difficult to assess the development of the construction fittings trade in 2010 because of the uncertainty regarding the economy and the need to clarify the government programme. Because the downward trend in commercial and residential construction will continue in 2010, a further slight decrease must be expected.

The economic crisis had completely taken hold of the trade in production-associated tools. Over two thirds of companies have assessed the situation after the first half of the year as bad and have recorded a substantial drop in turnover. The reason for this development is the dramatic collapse of the metalworking sector. The machine and tool manufacturing sectors recorded a drop in orders of over 40 per cent in the first half of the year, for example. This was having a great impact on the tool trade and couldn't be compensated through other customer groups in the construction industry and skilled trade. As a result, the trade in production-associated tools recorded a double-digit decrease in turnover in the first half of the year, with declines amounting to more than 30 per cent in the most severe cases. The assessment of the current situation of the sector in the third quarter of the year was somewhat more favourable and the situation began to stabilising. The stabilising continued throughout the final three months of 2009, so that experience a slight recovery in the second half of the year. However, this recovery will bring only minimal turnover increases for full-year 2009, as the tool and machine manufacturing sectors in particular have not (yet) shown any signs of a turnaround, and no remarkable improvements are expected for the other customer groups either.

It is very difficult to forecast what 2010 has in store for the tool trade, as it is unlikely that the economy will recover quickly. In addition, job cuts and adjustments of production capacities will probably continue to affect turnover in the coming year, and the overall economic situation can be expected to have an additional negative impact on the skilled trade and the construction sector. All in all, this means that the trade in production-associated tools should expect a further slight decrease in 2010.

Source:

Central Association of the Hardware Trade (ZHH)

Thomas Dammann (Chief Executive)

Eichendorffstraße 3, 40474 Düsseldorf, Germany

Mailing address: Postfach 30 03 65, 40403

Düsseldorf, Germany

Tel. +49 (0)211 47050-0

Fax +49 (0)211 47050-19

e-mail: zhh@hartwaren.de

Web: www.zhh.de