North America HVAC News
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International Market Strategy

Topics	
USA	California Adopts Nation's First Statewide Green Building Standard
USA	Home Sizes fall as Builders, Buyers Embrace Economic Reality
USA	Housing Starts Slip 4% in December; Building Permits Rise
USA	NORTH ROAD TECHNOLOGIES Acquires NYLE CORPORATION
Canada	INDUSTRIAL NANOTECH, INC. Announces Agreement with OEM Solar
USA	HOME DEPOT to Cut 1,000 Jobs, Shut Three Stores
USA	LG Seeking Growth in US HVAC Market
USA	HVACR's 2010 Fate May Rest With Stimulus
World	Experts See Another Global Dip Ahead
World	With China's Rise Comes Economic Conflict With West
World	Global Temperatures in 2009 Tied with 2006 as Fifth Warmest on Record

International strategic market research and consultancy on building product and related markets

USA: California Adopts Nation's First Statewide Green Building Standard

27 January 2010 -- The California Building Standards Commission unanimously adopted the first-in-the-nation mandatory Green Building Standards Code, called CALGreen, on January 12. The program, which takes effect on January 1, 2011, will require all new buildings in the state to be more energy efficient and environmentally responsible. California Governor Arnold Schwarzenegger said the action lays the foundation for the move to greener buildings constructed with environmentally advanced building practices that reduce energy use, decrease waste, and conserve resources.

CALGreen will require mandatory inspections of energy systems (such as furnaces, heat pumps, air conditioners, and other mechanical equipment) for non-residential buildings with more than 10,000 square feet of floor space, to ensure that the energy systems are working at their maximum capacity and according to their design efficiencies. It also requires that every new building constructed in California reduce water consumption by 20%, divert 50% of construction waste from landfills, and install materials that emit low amounts of indoor pollutants. In addition, separate water meters are required for non-residential buildings' indoor and outdoor water use, with a requirement for moisture-sensing irrigation systems for larger landscape projects. While water conservation is itself a priority in the state, water consumption is directly tied to energy consumption. A 2005 report from the California Energy Commission (CEC) found that water use consumes 19% of the state's electricity, 30% of its natural gas, and at least 88 billion gallons of diesel fuel per year, although those figures included water heating.

The California Air Resources Board estimates that the mandatory provisions will reduce greenhouse gas emissions by the equivalent of 3 million metric tons of carbon dioxide in 2020. Upon passing state building inspection, California's property owners will have the ability to label their facilities as CALGreen compliant without using additional third-party certification programs.

Source: EERE

USA: Home Sizes fall as Builders, Buyers Embrace Economic Reality

21 January 2010, LAS VEGAS -- New-home buyers responded to the tough times in 2009 by opting for smaller houses, driving down the average size of a house built in the US for the first time in 27 years.

Data released Wednesday by the National Association of Home Builders found the average size of a new home fell to 2,480 square feet last year from 2,520 square feet in 2008. The last time the average home size fell was 1982.

"You've heard the mantra 'downsize me' and 'small is the new big?' Well, last year was definitely a downer," said Carol Lavender, president of Lavender Design Group, a residential design firm in San Antonio, Texas.

Homeowners surveyed by Better Homes and Gardens magazine said downsizing was becoming a bigger priority: 36% said in November that they expected their next home to be "somewhat smaller" or "much smaller" than their current home versus 32% who said that in 2008.

"Not surprisingly, we see a 'cents and sensibility' approach when it comes to buying or improving a home, with practicality and price being the top priorities," said Eliot Nusbaum, the magazine's executive editor of home design.

While the small-house movement in the US has been gaining steam for a number of years, the recession has accelerated it and home builders have responded, housing analysts speaking at the International Builders Show here this week said.

"The era of easy money is over. You really have to think before you go out and decide you need that five-bedroom, five-bath home," said Rose Quint, the NAHB's assistant vice president for survey research. "Couple that with the energy [cost] concerns of consumers today and I think we will continue this trend. Houses will not shrink drastically but they will shrink."

Although actual square footage of homes didn't fall until 2009, the percent of homes with four or more bedrooms in them has been falling since 2007, NAHB data show. And in 2009 the number of homes with three or more bathrooms fell for the first time since 1992.

First-time and older buyers drive changes

Two other trends in home construction are contributing to the declining square footages: The prominence of first-time buyers in the housing market and the increasing number of households with members 55 and older who are buying homes.

First-time buyers, driven into the market in good part by the availability of an $8,000 tax credit, are more likely to compromise on home size in exchange for a lower price. And the 55+ crowd tends to purchase single-story homes, which generally are smaller because of the land costs that favor the more-efficient two-story plans.

"Barely over half of new homes today are built with two stories or more," Quint said. Two-story homes peaked at about 55% of the market in 2006.

For 2010, home builders say they will focus on lower-priced models and smaller homes. More than 95% of builders surveyed by NAHB in January said that was the way they saw their business evolving this year.

The penchant for smaller homes will necessitate some design changes. See the Top 10 must-have features that home buyers say they want in their houses today.

Builders, attempting to respond to those consumer demands as well as hold the line on prices, told the NAHB surveyors that they were most likely to include these features as standard in their houses this year:

•Walk-in closets in the master bedroom.

•Laundry rooms.

•Insulated front doors.

•Great rooms.

•Energy-efficient windows.

•Linen closets.

•Programmable thermostats.

•Energy-efficient appliances and lighting.

•Separate shower and tub in master bathrooms.

•Nine-foot ceilings on the first floor.

Among the things that builders said they were least likely to add to houses in 2010:

•Outdoor kitchens.

•Outdoor fireplaces.

•Sunrooms.

•Butler's pantries.

•Media rooms.

•Desks in kitchens.

•Two-story foyers.

•Eight foot ceilings on the first floor.

•Multiple shower heads in the master bath.

•Smaller kitchens.

"You can see that builders are concentrating heavily on energy-saving features," Quint said. "But a lot of the luxury items are on the chopping block or on hold as builders try to lower costs."

Source: www.marketwatch.com

USA: Housing Starts Slip 4% in December; Building Permits Rise

20 January 2010: For 2009, new construction falls to post-World War II low of 554,000 homes.

WASHINGTON -- Capping the worst year for housing since the end of World War II, US housing starts fell 4% to a seasonally adjusted annual rate of 557,000 in December from 580,000 in November, the Commerce Department estimated Wednesday.

For all of 2009, an estimated 554,000 homes were started, down 39% from 2008's total of 906,000 and the lowest since 1945. Starts of single-family homes dropped 29% to 444,000 in 2009, the lowest on record, dating to 1959.

Housing starts of single-family homes, condominiums and apartments have been essentially flat over the past year, dipping one month only to rise the next. Compared with December 2008, starts are up 0.2%, the first year-over-year gain since early in 2006.

November's starts pace was revised higher, to 580,000 from 574,000 previously reported.

The home-construction industry has been busy slashing production of new homes to work off a massive inventory of unsold properties. As of November, the number of new homes on the market had fallen about 60% to just 235,000 -- the fewest since 1971.

For their part, builders remain very pessimistic about a recovery, despite a generous tax subsidy for buyers.

In January, the home builders' sentiment index dropped back to a reading of 15 from 16. Builders face tough competition from foreclosures of existing homes, and prospective buyers remain cautious about the job market.

The adjustment in home building isn't over yet: The number of homes under construction fell 4% in December to a seasonally adjusted annual rate of 511,000, a record low, the data showed.

For all of 2009, the number of homes completed fell 29% to 796,000, also a record low.

Some reasons for optimism

Details of the December report showed a stronger rebound in the housing market, however. The number of building permits rose 10.9% to a seasonally adjusted annual rate of 653,000, far above the level of starts and the highest in 14 months.

In December, building permits for single-family homes rose 8.3% to a seasonally adjusted annual rate of 508,000, the highest in 15 months. Many economists consider the single-family permits figure to be the most reliable and important number in the release.

Over time, permits and starts are highly correlated.

Permits are less affected by unseasonable weather than starts are. This December was one of the coldest and wettest on record.

"Some of the decline in starts may owe to messy weather conditions in the month which tend to affect permits less," wrote Julia Coronado, an economist for BNP Paribas. However it is still the case that the momentum in building activity as fizzled in recent months."

Starts fell sharply in the Northeast and Midwest, rose slightly in the South, and were essentially flat in the West.

The government cautions that its monthly housing data are volatile and subject to large sampling and other statistical errors. In most months, the government can't be sure whether starts increased or decreased.

In December, for instance, the standard error for starts was plus or minus 9.3%. Large revisions are common.

The standard error for monthly building permits data is much lower at plus or minus 2.4%.

It can take four months for a new trend in housing starts to emerge from the data. In the past four months, housing starts have averaged 562,000 annualized, down from 568,000 in the four-month period that ran through November.

In a separate report Wednesday, the Labor Department said producer prices rose 0.2% in December, while core prices -- which exclude food and energy prices -- were flat.

Source: www.marketwatch.com

USA: NORTH ROAD TECHNOLOGIES Acquires NYLE CORPORATION

Milford, CT, January 1, 2010 – NORTH ROAD TECHNOLOGIES LLC announces that it has acquired the assets of NYLE CORPORATION in Brewer, ME. The acquisition will keep existing staff, locations and product lines intact and will position the combined company for substantial growth in the development of Energy Saving Heat Pump products. Specifically the company will focus on:

- Lumber dryers: NYLE has been a global leader in Heat Pump Lumber Dryers for the past 30 years. Coming out of the current recession, we will invest to update and expand the product line and re-introduce it to the market with improved manufacturing capabilities and shorter lead times

- Drying and dehumidification: NYLE has experienced very good success in developing drying and dehumidification systems to the food and other industries. We will build on this success and actively pursue further opportunities

- Water Heating: NORTH ROAD has built a foothold in the residential water heating market with the GEYSER Heat Pump Water Heater. We will build on this success and introduce new energy saving water heating products for the commercial and industrial markets

- Energy Recovery: We will leverage the combined NYLE and NORTH ROAD experience to design large scale energy recovery systems for a number of industries, including pharmaceuticals, beverage and paper

“We have some unique capabilities and the experience that allows us to operate Heat Pumps in a wide range of temperatures, including extracting energy in cold climates and delivering hot water at temperatures exceeding 200F. I am very excited about this transaction because now we will have the resources to develop the new products that customers have been asking about for years” said Don Lewis, formerly President of NYLE CORPORATION and now the new VP of Technology at NORTH ROAD. “It will also allow us to scale up our capabilities and be ready, now that the lumber industry is coming out of the recession.”

Ton Mathissen, President of NORTH ROAD added: “This combined company is very well positioned to deliver products that hit on the key issues of our time: Cost savings, reducing our dependence on foreign oil and reducing our carbon footprint. We see opportunities to do well for our customers both in NYLE and NORTH ROAD’s traditional markets and in some new areas.”

About NYLE CORPORATION: NYLE (www.nyle.com) has been a leader in Heat Pump Lumber Dryers for the past 30 years. In recent years it has used its unique experience, working with Heat Pumps in Cold Climates and designing Ultra High Temperature Systems to introduce Heat Pumps to a variety of new applications.

About NORTH ROAD TECHNOLOGIES: NORTH ROAD (www.northrdt.com) is an innovative company that is dedicated to the design, manufacture, installation, and service of Heat Pump technology products that meet the needs of our customers and our environment. Its success with the GEYSER Heat Pump Water Heater has led it to this acquisition and will allow it to drastically expand the product range and gain new development capabilities.

Source: www.northrdt.com

Canada: INDUSTRIAL NANOTECH, INC. Announces Agreement with OEM Solar Manufacturer, Total Energy Care

NAPLES, Fla., Dec 22, 2009 -- INDUSTRIAL NANOTECH, INC., an emerging global leader in nanoscience solutions, today announced the completion of an agreement with TOTAL ENERGY CARE (TEC) to represent their patented NANSULATE Solar thermal insulation and energy saving coating in Canada for retrofitting energy systems in existing buildings and in new build construction. The agreement includes use of NANSULATE Solar product within the solar thermal and thermal storage industries in Canada.

TEC's President, Steven Burke, has committed to using NANSULATE on all solar thermal panels manufactured at their new plant. Mr. Burke explains, "Because of the amazing thermal resistance properties shown by NANSULATE, by applying it on all five of the metal surfaces within a flat plate solar thermal panel, we expect as much as a 20% to 30% increase in the efficiency over traditional insulation used in this industry. The effect of reduction in loss of heat captured from the sun and held in thermal storage tanks promises to be even more profound. And these are huge advantages in the marketplace!"

TEC's strong sales growth plan includes increasing their sales force from 60 to approximately 200 reps by the middle of 2010. Mr. Burke continues, "We can reasonably approach not only the hot water market but also that of space heating, as the end result is a product approaching the efficiency formerly only available from evacuated tube panels, but at a much lower cost. Solar thermal flat plate collectors are far less expensive to manufacture than their airless competitors. At approximately 40% of the cost of buying evacuated tube solar thermal systems (wholesale price), this means that a product using flat plate panels will produce heat for far less per BTU than evacuated tube."

TEC is opening a new facility for manufacturing solar thermal panels and thermal storage tanks which will employ more than 50 individuals. The facility will be headed by engineer Brian Slack, who has won awards for increasing efficiency at an American Corporation's plant in South Western Ontario.

This will be the second OEM application for solar thermal equipment in which the coatings have been specified. INDUSTRIAL NANOTECH previously announced that their patented NANSULATE Solar thermal insulation coating will be incorporated into all new solar water heater systems by Asian manufacturer FIRST ENERGY SOLUTION to insulate and increase efficiency.

Source: www.foxbusiness.com

USA: HOME DEPOT to Cut 1,000 Jobs, Shut Three Stores

26 January 2010 -- No. 1 home-improvement retailer HOME DEPOT INC. said Tuesday that it's cutting 1,000 jobs as it plans to shut three underperforming pilot stores and consolidate various back-end functions.

The stores, affecting about 100 jobs, are a small-format store in Wilson, N.C.; a temporary hurricane-recovery outlet in Waveland, Miss.; and a clearance outlet in Austell, Ga. The company said it has no plans to close its orange big-box stores.

Approximately 900 other jobs being cut relate to the company consolidating its human-resources, finance, real-estate and construction functions, including centralizing its HR structure mostly back to its Atlanta headquarters instead of having a field-team structure by districts, company spokesman Ron Defeo said. Finance will now have a pool support structure instead of dedicated support teams previously.

Since it has slowed its store openings, HOME DEPOT no longer needs as big of a staff for real estate and construction, the company said. As part of the restructuring, HOME DEPOT said it will add 200 jobs in Atlanta.

"This is not a case of the company cutting expenses in reaction to broader economic pressures or our business performance," Chief Executive Frank Blake wrote in a memo to employees, adding the cuts don't affect HOME DEPOT's customer-facing positions. "Rather, we are making prudent structural changes where it makes business sense to consolidate some functions."

The company has more than 300,000 employees and 2,245 stores worldwide, including 1,976 in the United States.

Shares of HOME DEPOT, a member of the Dow, were up 0.5% to $27.75 in late-afternoon trading.

Against an improved consumer outlook for 2010, retailers aren't letting their guards down and are still taking measures to make their operations more efficient as consumers remain cautious in their spending, analysts said.

HOME DEPOT's news came two days after WAL-MART STORES INC. said it's cutting more than 11,000 jobs at its SAM'S CLUB wholesale-club chain. The retail giant earlier this month also said it's shutting 10 underperforming SAM'S CLUB stores, cutting 1,500 jobs.

To offset the negative impact of the housing market downturn that has hurt big-ticket spending, HOME DEPOT Chief Executive Frank Blake has launched a "More saving. More doing." campaign, lowered product prices, improved customer service and kept more merchandise in stock to bolster demand. He's also shipping more products from regional distribution centers instead of directly from suppliers to stores to make operations more efficient.

The company is also slowing its square footage growth target to about 1.5% each year from 10.2% as recently as 2003.

"We believe the company is meeting or modestly exceeding its internal plan and is not taking these measures in response to the economy," said BMO CAPITAL MARKETS analyst Wayne Hood, regarding HOME DEPOT's job cuts.

Details related the company's capital spending, store openings and other plans will be laid out when HOME DEPOT reports its earnings on Feb. 23, according to Defeo.

Source: MarketWatch.com

USA: LG Seeking Growth in US HVAC Market

26 January 2010 -- LG ELECTRONICS announced new initiatives and energy efficient products aimed at expanding the company's US commercial and residential HVAC business at AHR Expo, being held this week in Orlando, FL, US.

LG is introducing three new high SEER (Seasonal Energy Efficiency Rated) models for Commercial and Commercial Light applications. The models range in efficiency from 18.4 SEER to 20 SEER and qualify for the Federal Energy Efficiency Tax benefit. They will launch in the second quarter of 2010.

The appliance company has also opened two commercial air conditioning training academies – one outside of Atlanta, GA, US and one in California – with plans to open two other academies later this year. The training academies focus on educating trade partners on the company's advanced applied commercial products, duct-free and energy efficient solutions and other products that can broaden contractors' portfolio.

"LG ELECTRONICS has been one of the world's largest producers of air conditioners and here in the United States, we are building on this global leadership position and looking to grow the business in this market," said Kelly Cutchins, vice president, Commercial Air Conditioning, LG ELECTRONICS USA, INC. "Illustrating that commitment this week, we have energy efficient heating and cooling solutions that blend effortlessly into a wide range of commercial and residential environments. And, supporting the industry's training needs and especially our growing customer base, we are excited to have opened two training academies.

Source: www.appliancemagazine.com

USA: HVACR's 2010 Fate May Rest With Stimulus

28 January 2010 -- I wrote a piece for another publication last year urging HARDI members and their contractor customers to learn fast what it means to be part of a subsidized industry. Much like heavy equipment distributors whose success ebbs and flows annually with federal and state infrastructure spending, so too might that of HVACR businesses with public spending on energy efficiency incentives.

Let's put aside the debate of how much the government may have contributed to the current economic downturn, and turn the focus to the impact the federal stimulus bill has had — and will continue to have — on the HVACR industry. The rate and amount of federal, state, local and utility spending on residential and commercial energy efficiency improvements, combined with our ability to quickly and efficiently take advantage of such funding, will most likely determine how successful 2010 will be for HVACR distributors and contractors.

First, let's put any discussion of 2010 into proper perspective by taking a quick look at the recent past. A recent analysis of distributor performance in 2008 versus 2007 prepared by Al Bates at the PROFIT PLANNING GROUP comparing HARDI distributor data with that of other industry's distributors showed less than 1% sales growth, which still vastly outperformed the average of other types of construction-related distributors. Gross margin performance followed the same pattern, however average HARDI expenses exceeded those of all other distributor categories pulling down return on investment. The 2009 Annual Profit Report (based on 2008 data) revealed a decline in average net profit margins for HARDI distributors for the first time in four years, providing more reason to believe 2009 would be a struggle.

In 2009 according to the HARDI Monthly Sales Trends collected and compiled by the INSTITUTE FOR TRENDS RESEARCH, no HARDI region experienced any month with positive sales growth — and the national average decline was 13% as of October's data. The Northeast, Mid-Atlantic, Southeast and, most significantly, the West had declines in excess of the average as did the non-geographic segments of distributors with less than $5 million and $15 million to $25 million in annual sales volume. The Great Lakes, Central, Southwest and Canadian regions and distributors with average sales of $5 million to $10 million, $10 million to $15 million, $25 million to $50 million, and $50 million and above all outperformed the HARDI average — although continued to report negative sales growth. It is important to note that 2009's negative numbers included a robust federal tax credit for residential HVAC equipment upgrades, coupled with unprecedented state and utility efficiency funding across the nation. This might suggest that 2009 could have been far worse, but more likely indicates that government and utility incentive funding has limitations to its market-driving potential.

Perhaps the most relevant question for 2010 is whether 2009 has signaled a bottoming out in which there's nowhere to go but up. The federal tax credits will remain in effect through 2010, providing a full year with complete product lines of qualifying equipment, a better-educated contractor community and public about those credits, and 2010 utility efficiency funding that is certain to dwarf any previous year. ITR's most recent quarterly HARDI Targeted and Regional Economic News for Distributor Strategies (TRENDS) forecast released in September included a conservative, but generally optimistic, forecast for 2010. "The rising trends of M1 and M2 [measures of money supply] make us optimistic about credit flows going into 2010 and about the probability of a 2010 rising trend in retail sales. It is true that the money supply trends will likely lead to a new inflation trend in 2011, but a trade-off is being made between liquidity today and inflation tomorrow. " Strangled credit markets are widely regarded as the key factor in 2009's declines, so any improvement in the 2010 credit market will surely deliver some growth. ITR's forecast concludes with "Fortunately, there are positive signals coming from the leading indicators. The U.S. Leading Indicator, the Purchasing Managers Index, corporate bond prices, the M2 money supply, and the stock prices 1/12 (S&P 500) confirm our outlook that the economy is exiting the grips of the recession in the final quarter of 2009. A general, albeit mild, recovery is projected for 2010. 2011 looks even better."

HARDI developed a partnership in 2009 with JP MORGAN's Electrical Equipment & Multi-Industry Equity Research in an effort to increase the value of analyses of the HVACR industry. In their HVAC 2009 Review and Outlook Annual Report, JP MORGAN analyst Steve Tusa believes that after an unprecedented four down years, the stage is set for a multi-year period of growth in residential HVAC starting in 2010. The key, he cites, is pent up demand from some ~7 mm older systems that have either been fixed over recent years or sitting idle, as consumers opt for cheaper alternatives to replacing broken units, which had become the norm over the past several decades. For 2010, they see growth, driven by a combination of growth in housing off of a low base, with the more important lever the degree of recovery in consumer sentiment, which is a key to rates of replacement of the aged installed base; a bigger factor at 90% of market volumes. Add it all up, and JP MORGAN forecasts market growth of 15% in 2010, with a worst case of 5%.

ITR's Alan Beaulieu, who serves as HARDI's chief economist, shares JP MORGAN's generally positive outlook. He cited a Federal Housing Finance Agency report of a 0.2% higher Q3 Housing Price Index compared to Q2 and an improving National Association of Realtors house affordability index. But he also had a clear message of caution: "Having just said that, let's not get too excited. The banking industry is still reeling, unemployment is high and consumer cash will not be flowing into the housing industry at anything close to the boom levels of 2006 and 2007. Plan on stabilization through the near term followed by mild rise later in 2010." Beaulieu concluded, "Undoubtedly, low interest rates and tax credits have been a boon to the real estate businesses in an otherwise dour market but be prepared for additional setbacks in the recovery, resulting in a flat 2010 with the potential for fairly mild upside activity later in the year."

Significant headwinds are restraining a robust recovery in 2010. The American Institute of Architects projects a 16% decline in non-residential construction in 2009, and an additional drop of almost 12% in 2010. Masonry Construction agrees and projects a 17% decline in 2010 in excess of 2009's 14% fall. Commodity prices have widely fluctuated, wreaking havoc on distributor inventory values, and have suffered from the sluggish new construction market. John Packard, publisher of the Steel Market Update, a HARDI Service Vendor Member, said, "For those involved in the galvanized sheet and coil business, besides having to deal with a sluggish residential construction market, 2008 and 2009 both were years when steel prices rose rapidly, fell dramatically and, as we enter the first quarter 2010, the domestic mills are pushing steel prices higher again.

"2010 will very likely be another year of turmoil. Steel Market Update expects prices to rise – and the rise could be much higher and faster than many anticipate – during the first quarter of 2010. The reasons for the increase will be the price of steel inputs – scrap in particular – and for those buying galvanized, the price of zinc has essentially doubled in price since the beginning of January 2009 when it traded around $.50 per pound compared to the $1.00 per pound we find it at today. The domestic steel mills have already announced new coating extras on galvanized steel to go into effect during the early days of the first quarter 2010. Many of the mills have also announced price increase on the base metal. Combined, light gauge galvanized used for ductwork could increase by $85 per ton ($4.25/cwt) on 26 gauge G90 galvanized or around 9% from the December mill selling prices."

Robust incentives for public and private building efficiency improvements have the potential to help the industry overcome these significant barriers. The previously mentioned homebuyer tax credits and residential efficiency tax credits, coupled with current and proposed additional commercial tax credits provide no lack of federal measures intended to offset the significant cost of HVACR upgrades. As published by the Consortium for Energy Efficiency, utility budgets for U.S. and Canadian energy efficiency programs increased from $3.7 billion in 2007 to $4.5 billion in 2008, and 2009 exceeded $6 billion — $5.3 billion in the U.S. alone. Given those incredible positive rates of change, 2010 efficiency funding could be literally off the charts.

Coupling these incentives for geothermal and high-efficiency HVAC systems (and increasingly for refrigeration systems) with JP MORGAN's projection that several years of increased repair rates is creating a demand bubble soon to pop, would indicate that there are significant margin opportunities for unitary equipment distributors in 2010. While this could signal a decline for the parts and supplies wholesalers that have fared best during this period of higher repair rates. Even a modest increase in residential construction should maintain some demand for ancillary products, including ductwork and other air-handling products.

As I complete this article, the U.S. Environmental Protection Agency finally finalized the two rules for the 2010-2014 step in the phaseout of HCFCs, primarily R-22, reducing domestic supplies by 75%. HARDI's initial analysis of the HCFC Allocation Rule and the Ban on Pre-Charged Appliances Rule indicates as favorable an outcome as could have been expected, thanks largely to a year's worth of close work with the EPA to amend and clarify the two rules proposed in late 2008 that were wrought with significant problems for HARDI distributors. The final rules make clear that replacement components such as condensing units, compressors, line sets, etc., can continue to be sold beyond January 1, 2010, and used for the repair and servicing of existing R-22 HVAC and refrigeration systems. However, the installation of new R-22 systems in new construction or system expansions will be prohibited.

This would indicate another incentive for legacy system replacements since R-22 prices figure to increase as supplies tighten; however 2009 still saw some equipment lines in which R-410A equipment was more expensive than the R-22 equipment. This will hopefully be a limited phenomenon intended to deplete factory inventories since manufacturers will no longer be able to produce R-22 pre-charged equipment after January 1, 2010. Distributors that are most successful growing a motivated contractor base that is supportive of R-410A equipment will certainly be at a competitive advantage this coming cooling season.

2010's refrigerant transition affects the commercial refrigeration market as well. Manufacturers can still produce and sell refrigeration condensing units with nitrogen holding charges after January 1, 2010 for servicing purposes, but concerns over the long-term availability of affordable R-22 could help contractors encourage system replacements using alternative refrigerants. Energy efficiency interest and leak reduction mandates and strategies are providing incentives for distributed systems and upgrades to more efficient and tighter components.

In all, just about every indicator points to at least a flat 2010 for the HVACR industry with opportunities for modest growth. This is especially true for the residential markets; however commercial business seems sure to struggle for most of the year. Of course, improvements in the credit markets could save the 2010 commercial market, but access to credit isn't guaranteed to equal an increase in consumer or commercial demand. Much like last year, the only consistent construction growth is seen in the government and institutional projects that now most often demand some level of high-performance/sustainability/green expertise. Debates are underway on a potential second stimulus and/or a massive jobs bill, both of which would include significant infrastructure and energy efficiency spending. As always in wholesaling, buy low and sell high, but in 2010 be especially careful with your commodity items and be prepared to provide far more technical, sales, incentive administration, and incentive education support than you ever have before.

-- By Talbot H. Gee, Vice President of the Heating, Airconditioning and Refrigeration Distributors International (HARDI)

Source: The Wholesaler

World: Experts See Another Global Dip Ahead

27 January 2010 -- The global economic recovery could lose pace later this year, dashing hopes for a rapid escape from the deepest downturn of the postwar era, economists and investors said at the World Economic Forum's annual meeting at this Swiss ski resort.

Heavy debts will weigh on governments and households in the US and Europe for some time, while hopes for global growth will continue to rest on fast-developing countries such as India and China, predicted participants at the meeting's opening debate on the economy.

As many expected, the debate on regulating big banks also stoked passions. The push for more stringent regulation has accelerated in Europe and around the world since last week, when US President Barack Obama's administration proposed a plan to tax and curb activities of big banks.

The annual gathering of much of the world financial elite in Davos offers a chance to gauge the mood of business, regulators and analysts about the year ahead. Wednesday's debate suggested that while the global economy is growing again, it isn't out of the woods yet.

The world faces a long, slow recovery "ending in subpar growth," with the risk of a renewed recession along the way, said Nouriel Roubini, an economics professor at New York University who accurately predicted the financial crisis in Davos three years ago.

Mr. Roubini was uncharacteristically optimistic about the growth prospects for the world's emerging economies. But even there he found nits to pick in the form of China's risk of bubbles, Russia's aging population and political obstacles to structural overhauls in Brazil and India.

Turning to bank regulation, Mr. Roubini was among those who argued for even more stringent measures that would separate commercial banking from investment banking.

Financier George Soros said he backed Mr. Obama's plan to curb the activities of big banks, though he said it was both insufficiently broad and "premature," coming before banks had the chance to earn themselves out of their problems.

"This development came too soon because the banks are not out of the woods," said Mr. Soros, chairman of SOROS FUND MANAGEMENT LLC and founder of THE OPEN SOCIETY INSTITUTE.

He said he largely backs the administration's plan. "I'm very supportive of it but I don't think it goes far enough," said Mr. Soros, predicting the plan to stop commercial banks from speculating for their own accounts would lead big banks to split up and spin off investment arms, which themselves would become "too big to fail."

Others warned that the new regulations against banks—and growing protectionism—pose a serious risk to continued recovery. "We have moved from a period of great economic uncertainty to a period of great political uncertainty," said Raghuram Rajan, finance professor at the University of Chicago.

Mr. Rajan said the combination of 10% unemployment in the U.S. and 10% economic growth in China could prove politically toxic, as U.S. politicians might resort to "populism" and protectionist measures.

The disparity of the outlook between emerging and developed economies is particularly stark, he noted.

"Emerging markets used to be associated with indebted governments, lax monetary policy, suspicion of markets, a polarized electorate and a suspect private sector," Mr. Rajan said. Now, he said, that description better fits the world's advanced economies.

Many leading economists and investors showed little confidence that good times are back. The U.S. and Europe will have "U-shaped" or "W-shaped" recoveries, economists on the panel argued, meaning they believe the upturn since late 2009 will fizzle out later this year.

At Davos in 2007, few believed Mr. Roubini when he predicted a deep recession and financial crisis from the bursting of mortgage and credit bubbles.

Three years later, he is calling for more regulation. "I think the proposals are going in the right direction. But they are not enough," he said.

Mr. Roubini advocated the return of the Glass-Steagal Act of 1932, which separated commercial banking from investment banking after the collapse of many U.S. commercial banks in the 1930s.

Others countered that a push for more regulation could impose new risks.

Overreaction to the banking crisis by regulators and politicians could become a significant drag on economic growth, said David Rubenstein, co-founder of private-equity firm CARLYLE GROUP. The idea that tougher regulation can avoid all future financial crises is an illusion, he said: "We're not going to eliminate asset bubbles."

The U.S. needs to improve the state of "three d's: debt, the deficit and the dollar," said Mr. Rubenstein, adding that the U.S. budget deficit is bigger than other countries' budgets.

Source: The Wall Street Journal

World: With China's Rise Comes Economic Conflict With West

26 January 2010 -- As recently as 2008, when China was still an emerging economy eager to put its best foot forward for Western consumers, it lifted censorship on several Web sites before the Beijing Olympics. At the same time, it responded to entreaties from U.S. and European politicians, allowing its currency to appreciate against the dollar.

China is no longer emerging. It has emerged — sooner and more assertively than had been expected before the wrenching global financial crisis, which badly damaged all the established industrial powers, from the United States to Europe and Japan.

These days, the renminbi is frozen at an undervalued level, and Internet controls are stricter than ever — even as GOOGLE, one of America's most prominent companies, threatens to leave.

The severe recession has fast-forwarded history, catapulting an unprepared world into a period of uneasy cohabitation between the United States, the No. 1 economy, and its eventual successor.

"China is the West's greatest hope and greatest fear," said Kristin Forbes, a former member of the White House Council of Economic Advisers and one of hundreds of top officials and executives flocking to this winter resort for the annual World Economic Forum, which is taking place Wednesday through Sunday.

"No one was quite ready for how fast China has emerged," said Ms. Forbes, a professor at the Massachusetts Institute of Technology. "Now everyone is trying to understand what sort of China they will be dealing with."

For the first time, economists point to Chinese spending — not the U.S. consumer — as the key to a global recovery. China's gross domestic product could overtake that of the United States within a decade, one report predicted this month, while others speculated about when the renminbi might start to challenge the dollar as the world's reserve currency.

And as developing countries everywhere look for a recipe for faster growth and greater stability than that offered by the now-tattered "Washington consensus" of open markets, floating currencies and free elections, there is growing talk about a "Beijing consensus."

China's rise will be on prominent display in Davos this week, with the biggest Chinese delegation in the World Economic Forum's history. The local Chinese restaurant has been fully booked since early January. The 54 Chinese officials and executives — including the presidents of the country's sovereign wealth fund and export-import bank — were expected not only to rub shoulders here but also, as one put it bluntly, to "go shopping."

When the United States was snapping at the heels of the British empire, the global hegemon of the early 20th century, the situation caused plenty of friction, even though both countries spoke the same language, shared similar cultures and were liberal democracies.

China, in contrast, is a Confucian- Communist-capitalist hybrid under the umbrella of a one-party state that has so far resisted giving greater political freedom to a growing middle class. Now its ascendancy is about to set off what many officials and experts see as a backlash on both sides of the Pacific.

"It's not surprising that China's remarkable economic rise would be unsettling to some," said Pascal Lamy, the director general of the World Trade Organization.

So far, the backlash against China has been largely rhetorical. Stephen Roach, the Asia chairman of MORGAN STANLEY, counts 45 anti-China legislative measures introduced in the U.S. Congress between 2005 and 2007. None passed.

That could change, as tricky midterm elections loom in the United States and politicians there and in Europe become more outspoken in blaming China's currency peg to the dollar, which gives its industries a competitive edge, for rising joblessness at home.

Some targeted tariffs have been imposed in recent months. Washington has penalized imports of Chinese tires and coated paper products. Both the United States and the European Union are restricting Chinese steel.

But none of those measures go as far as climate change proposals in France and the United States, which call for border taxes on products from countries — China in particular — that do not accept higher costs for carbon emissions in producing energy and making goods. If "the U.S. opts for friction," Mr. Roach said, "the Chinese can be expected to respond in kind."

China has its own version of political jockeying. Several foreign companies already complain that doing business in China has become more difficult. Lured until a few years ago by tax rates less than half of those applying to Chinese companies, executives now cite an increase in red tape and a growing number of "buy China" mandates from government procurement offices.

The standoff with GOOGLE has illustrated the difficulties foreign business faces in China. It has also starkly raised the question of who will have the upper hand in future negotiations.

"The operating environment is tougher than ever for Western companies," said James McGregor, head of the government relations committee of the American Chamber of Commerce in China. "But unlike GOOGLE, most Western companies also need China more than ever."

China is the biggest recipient of foreign direct investment in the world: 450 of the Fortune 500 companies have business presences there, and many of those still reeling at home are doing brisk business in China. "G.M. is hurting anywhere else, but here things are quite profitable," Mr. McGregor said.

Business interests in China could make it harder for Western politicians to lash out. "It's a situation the U.S. was in for a long time," said Ms. Forbes, the M.I.T. professor. "Many people didn't like U.S. policy, but you had to be in the U.S. market."

If business executives are looking to China for its low manufacturing costs and sizable market, political leaders are studying a state perceived to have found a recipe for lifting millions out of poverty with fast growth, even if that means a stiff measure of domestic repression. "You hear more and more people talking about a Beijing consensus," Ms. Forbes said.

But what exactly is the Beijing consensus? Some see it as a form of economic management with greater government involvement that is on the rise across the world. Others interpret it to mean more strictly controlled capital markets, which have made a re-appearance even in previously open countries like Brazil. Policy makers in Malaysia and Dubai focus on replicating China's special economic zones, which afford generous terms to foreign investors in manageable geographic areas.

Some suggest that China's lack of democracy is an advantage in making unpopular but necessary changes. "It is more challenging for democratic systems because every day they come under public pressure and every short period they have to go back to the polls," said Victor Chu, chairman of First Eastern Investment Group in Hong Kong, the largest direct investment firm in China. "China is lucky to have the ability to make long-term strategic decisions and then execute them clinically."

With China's rising clout, the West has less leverage over Beijing. When China was seeking to join the World Trade Organization a decade ago, it accepted compromises to U.S. and European demands. At climate talks last month in Copenhagen, however, China blocked a comprehensive deal and refused to go beyond its earlier promises. Portrayed as a deal breaker in the Western media, at home it was celebrated as the country that stopped the West from imposing its terms on developing countries, Mr. Chu said.

Western diplomats complain about the way Beijing is dragging its feet more than Moscow on sanctions on Iran's nuclear program and is propping up unsavory regimes across the world in its hunt for the natural resources to power its growth.

Some say Chinese officials are using their country's $2.4 trillion in foreign currency reserves as a bargaining chip, knowing that any hint of reducing those reserves would rattle currency markets.

"As China is emerging on the global stage with unprecedented power and influence," said David Shambaugh, a professor of political science and international affairs at George Washington University who is in China as a Fulbright scholar, "it is not proving to be the global partner the United States and E.U. seek."

In the world of power politics, that is not particularly surprising. Like many Western countries, China will act only when it is in its interest.

Mr. Chu of FIRST EASTERN INVESTMENT said he expected China to resume a gradual appreciation of the renminbi later this year, not because Washington was lobbying for it but because signs of inflationary pressure and bubbles in the Chinese credit and housing markets were mounting. This month, the Chinese authorities raised interest rates and moved to curtail bank loans.

Kenneth Rogoff, an economics professor at Harvard University who just spent two weeks in China, warns that the country will face its share of economic troubles in the years ahead. But that will not change the underlying trend, he said.

While China remains much poorer than the advanced industrial powers of the West on a per-capita basis, its rapid growth should enable it to pass Japan this year as the world's second-largest economy.

A new report by PRICEWATERHOUSECOOPERS predicts that China could overtake the United States as the largest economy as early as 2020. In 2003, GOLDMAN SACHS made waves by suggesting that the Chinese G.D.P. might match that of the United States by 2041. Five years later, the forecast was revised to 2027.

According to Mr. Rogoff, over the next four decades or so, the Chinese renminbi will gradually come to rival the dollar as the world's leading reserve currency, making China's response to its increasingly central role in the global economy critical.

The risk, Mr. Shambaugh of George Washington University said, is that "the world will be asking more and more of China but getting less and less in return."

Source: The New York Times

World: Global Temperatures in 2009 Tied with 2006 as Fifth Warmest on Record

20 January 2010 -- The tally of global land and ocean surface temperatures for 2009 places it in a tie with 2006 as the fifth warmest year on record, according to the National Climatic Data Center (NCDC), a part of the National Oceanic and Atmospheric Administration. Ocean surface temperatures were 0.86°F above the 20th century average, which put them in a tie with 2002 and 2004 as the fourth warmest on record. Land surface temperatures averaged 1.39°F above the 20th century average, tying with 2003 as the seventh warmest on record. Combining the two yielded an average global surface temperature that was 1.01°F above the 20th century average. Perhaps more significantly, the decade of 2000 through 2009 was the warmest on record, with an average global surface temperature of 0.96°F above the 20th century average. For comparison, the 1990s was the next warmest decade, at 0.65°F above the 20th century average.

Source: EERE