Q2- 2021

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Manufacturing Consumables & Packaging News

A quarterly newsletter designed to bring forward current market conditions and the potential impact to procurement and supply chain planning in the Manufacturing Consumables and Packaging Supply sectors.

Plastics Market Challenges

We are experiencing unprecedented times with respect to plastics market movement, as indicated in the below graphs from The Plastics Exchange, and it is highly unlikely that markets will ever return to Q1 2020 levels. Longer lead times for resin-based products have also become the norm, some stretching out as far as 52 weeks or more. The Texas deep freeze isn't entirely to blame for what we are seeing, as the market upswing was in full effect prior to this event, but it did contribute to reduced availability as well as longer lead times. Multiple Texas plants had to be taken offline for repairs and maintenance, and some are just now coming back up to full capacity.

Key Notes From The Plastics Exchange Market Update

The Plastics Exchange Market Update, March 9, 2021

- Massive drawdowns are estimated to have brought inventories for many materials down to less than a 2-week supply, with some essentially at zero. We are also seeing significant shortages of related materials like gaylord boxes, which have backed up resin packaging. With upstream inventories spread among thousands of specific resin grades, processors have been forced to become more liberal with substitute material / packaging requirements and plant operators more creative to make it all work...

- "Not to douse the hope of eventual relief, the March $.07/lb Polyethylene [increase] should implement and some producers have nominated at least another $.06/lb increase for April. Polypropylene producers also continue to nominate more margin enhancing increases, and yet another previously unaffected PP producer declared Force Majeure this week. Crude oil prices just reached $66.42/bbl, the highest level since Oct 2018."

Source: ThePlasticsExchange

Advanced planning, forecasting, and securing of supply are more important than ever to ensure your operations don't go "lines down" due to plastics shortages.

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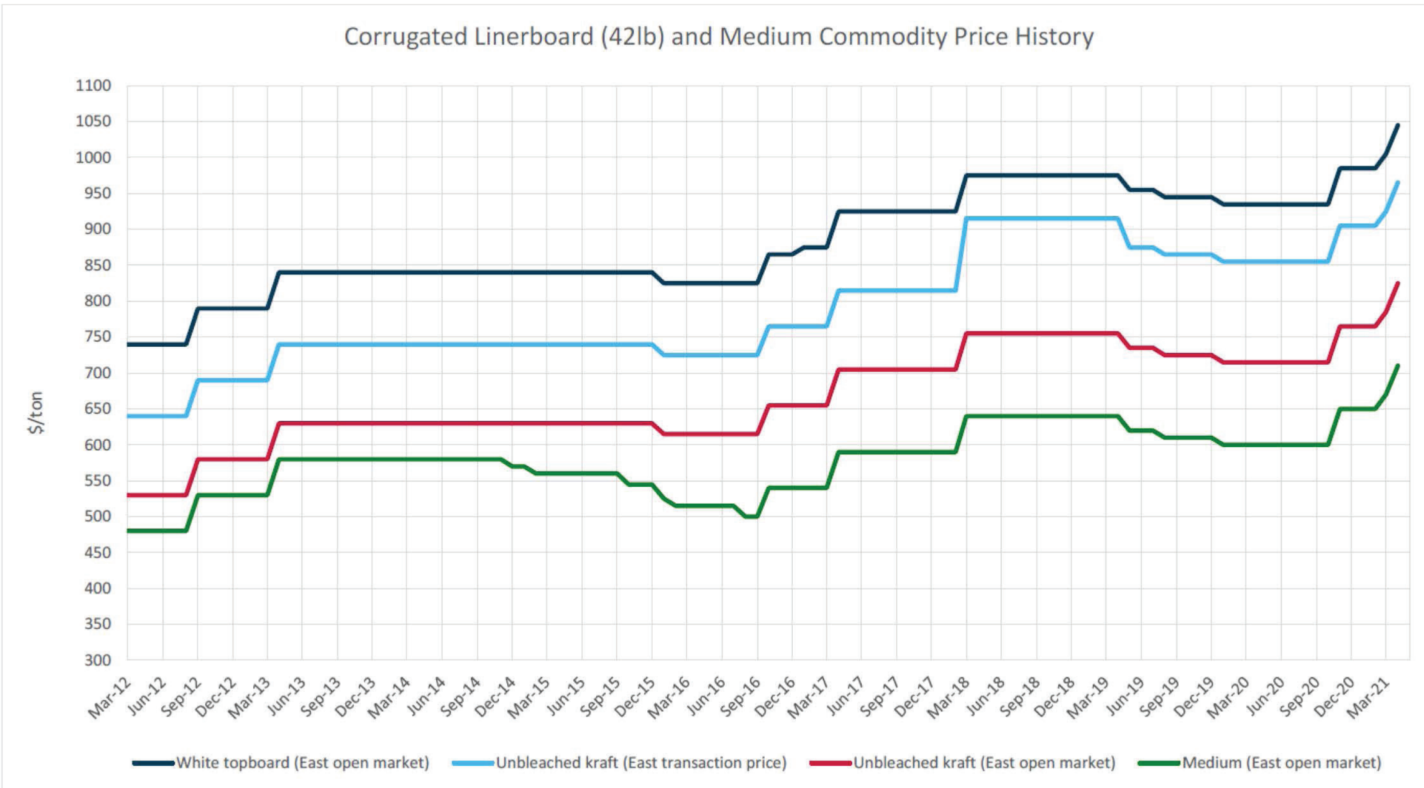
Pulp and Paper

Pricing continues to increase.

- Corrugated producers proposed a $60-70/ton increase in March 2021, but only $20/ton (2.6% increase) was reported by RISI in March 2021. The remaining $40/ton increase was reported in April 2021, resulting in a combined 7.8% increase. Many packaging suppliers passed along a 12% increase in prices (significantly higher than the combined paper movement), associating the additional increase to other factors (e.g., trucking, labor, energy).

- Aside from the 3-year period from Q2 2013 until the back half of 2016 and some slight decreases in late 2019, there have been regular increases in the paper market over the past 10 years. What is different in the current environment is the frequency with which the increases are occurring. Since October 2020, corrugated linerboard has increased 15.4%, with most packaging suppliers increasing prices by 21% to consumers.



Source: RISI - PPI Pulp and Paper Week

The above information should prove helpful when talking to your Corrugated suppliers and ensuring they are not taking undue advantage of the situation.

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Lumber

Lumber prices are at all-time highs, and the ripple effect throughout many industries is significant.

- The area where nearly every manufacturer is heavily impacted is Wood Pallets, where demand increases, production lags, and weather patterns have led to supply shortages and much higher prices. Recycled pallet prices are up 30-60%, while new pallets are up over 100% in many cases.
- Lance Lambert of Fortune.com sums up what we have all been seeing in the Lumber market: "…As of the week of March 11, the price of lumber per thousand board feet is at $1,044, according to Random Lengths. That's an all-time high, and up 188% since the onset of the pandemic. The National Association of Home Builders calculates that current lumber prices are adding at least $24,000 to the price tag of a typical new single-family home…" (see this article, Record-High Lumber Prices Add $24K to the Price of a New Home).

	This Week	Last Week	Year Ago
Framing Lumber Composite Price[1]	**1,035**	**1,016**	**427**

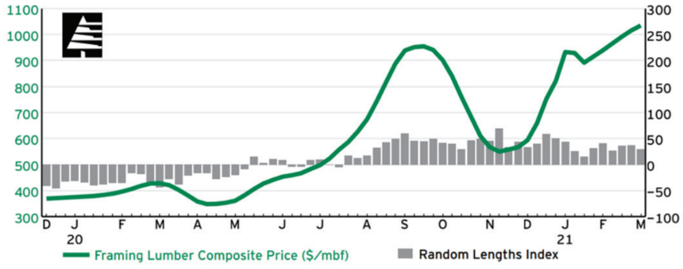

Chart Illustrating Lumber Price Increase from December 2019 to March 2021 – Courtesy of Random Lengths Weekly Report (https://www.randomlengths.com/)

Metal Products

Consumers of Metal Products have experienced Steel and other Metal Product price increases as well as much longer lead times over the past two quarters. Ultimately, we expect these conditions to make their way to the markets of industrial consumers, and eventually, retail consumers.

- Although published a while ago at the beginning of December 2020, this article "Rising Steel Prices: A Look At The Economic Factors," still does a great job explaining some of the reasons behind increased steel prices.

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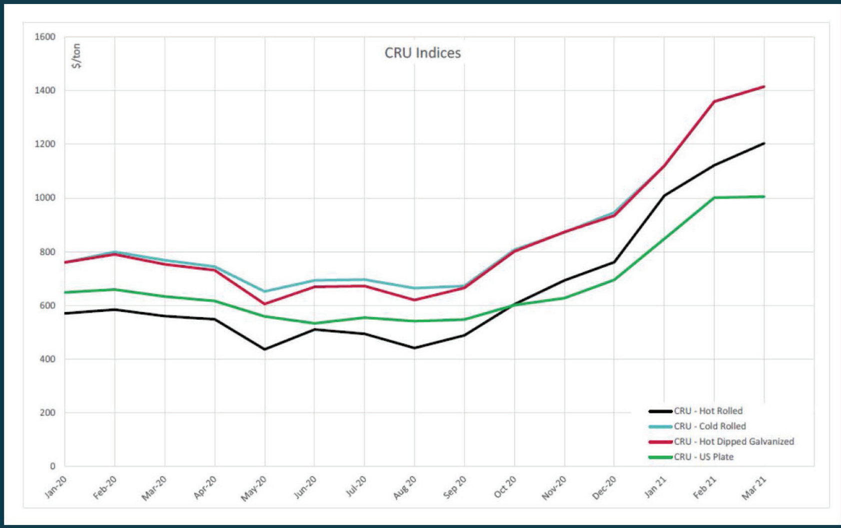

Source: CRUgroup

We anticipate this COVID price spike is short-term, especially with a good amount of steel mill capacity scheduled to open this year.

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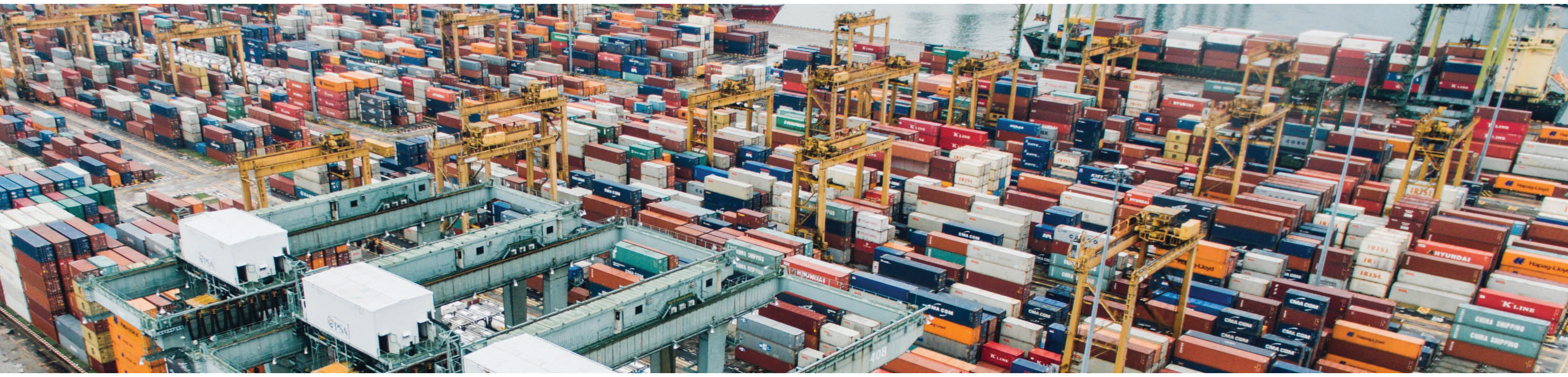

Required Reading: Supply Chain Issues

Articles worth checking out:

- This article (The Coronavirus Has Wreaked Havoc with Supply Chains From China), by Jeffrey Cartwright of Shoreview Management Advisors, sheds some light on the domino-effect of issues caused by dependency on supply chains based in China.

- The Wall Street Journal also chimed in with an article titled, “Everywhere You Look, the Global Supply Chain Is a Mess,” by Sean McLain, Christopher Matthews, and Costas Paris, updated March 18, 2021. “...Several forces are coming together to squeeze the world's supply chains, from the pandemic-driven rise in consumer demand for tech goods to a backlog of imports at clogged California ports to U.S. factory outages caused by weather woes. They are creating cost increases and delays for numerous industries, company executives and analysts say, affecting profit margins and the prices that companies and consumers ultimately pay for many goods.

  ‘We've been scrambling to get enough raw material,’ said Tom Nathanson, chief executive of Summit Plastics Inc., who predicted possible lasting damage to the plastics industry in the form of lost customers...”

About the Authors

Value Through Insight™

Patrick Garr and Travis Cantrell are Manufacturing Specialists with Expense Reduction Analysts. They both hold engineering degrees and have over 24 years of collective experience studying complicated client expenditures in Direct Material, Industrial Chemicals/Gases, Packaging Suppliers, and Factory Consumables/MRO. ERA utilizes its in-depth subject-matter expertise to negotiate with suppliers and deliver best-in-class sourcing solutions for their clients.

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