



Inflation/Durable Goods

Plastics Mfrs: Prices Headed Way Up as Demand Improves and Supplies 'Constrained'

- *A 'Robust' Mfg Ramp Up In the Works Led By Autos, Electronics; But Defense Soft*
- *Skeptics Ask Why 'Shortages' When Europe Is Tanking and China Is Slowing*
- *Producers Reply that Big Oil Is Monopolizing Feedstock to Make Gasoline*

By Gary Rosenberger

JACKSON HOLE, Wyo. (EconoPlay) Feb. 9 – Prices for commodity plastics that go into innumerable consumer and industrial products are due to surge soon, or already have, reflecting high demand from manufacturers and supply constraints, industry officials say.

Resin suppliers blame shortages of feedstock (the building block of all things plastic), claiming that cash-rich oil companies are hogging all they can to make gasoline.

Leading that demand are automakers – with electronics and industrial manufacturing closely trailing. But defense and housing-related demand (read fighter planes, washing machines, and dishwashers) continues to lag or is sinking fast.

Skeptics ask how bad can feedstock shortages be when Europe is in the tank and China is slowing? And how can any increases be justified when prices for the main components of feedstock (crude oil and natural gas) haven't budged for months?

Yet the proposed increases are steep – one source called them historic.

Leading the way is polypropylene (used for textiles, auto components, packaging, and much more) – up anywhere from 20% to 40%, depending on the grade and vendor.

Engineered plastics (in contrast to commodity plastics) are set to rise a more demure 5% or so, especially those made from natural gas, where prices remain depressed.

Most of the increases have yet to work their way through the supply chain. There's also enough lower-cost, older inventory to sell (albeit at a higher margin) to soften the inflationary pain. Of course, there's also talk of "pushback" from buyers.

"Pricing did come down in the fourth quarter, and now I hear that prices this quarter are going to go up considerably," said Kelly Schwenk, general manager of Pyramid Plastics in Rockford, Illinois.

“It’s more manipulation from the supply side,” he alleges. “Yes, we are busy. The economy seems to be getting better. But it’s the manipulation part that causes prices to increase. We still have a lot of capacity out there, but people refuse to use it, and it drives up costs.”

He argues “nothing has changed” in terms of the cost components for resin suppliers. “Oil has been close to \$100 for a year. Natural gas prices are low and not going anywhere,” Schwenk said.

“It’s all coming from the resin guys,” he said. “I would understand it if the price of oil and natural gas were going up, and they had to pass on their costs. But that’s not what’s happening. They’re just refusing to produce. That’s the problem.”

But there’s also no arguing that demand is up. “Our orders are up. We had a record couple of months,” he said.

Historic Increases

“Polypropylene producers are gearing up for some of the biggest price increases in history,” said Lloyd Schoen, of Entec Polymers in Chicago, a supplier of plastic resins.

The 22 cents a pound increase announced on Wednesday brings polypropylene to 76 cents a pound from 54 cents a few days ago, a whopping 40% increase. “Some producers are hedging that it may go up another 2 to 8 cents a pound, so it could go up 30 cents by the time this is over,” he said.

The cost benzene, an important constituent, is up \$1.00 a gallon to the mid-\$4.00 range, which also portends future price increases for resins, Schoen said.

A letter he received from a Texas supplier pinned the blame for those “double-digit” increases on Iran as well as “turnaround season,” when oil refineries ramp up production of summer-grade gasoline. The supplier claimed that 20% of U.S. propylene capacity would be down while refineries gear up for the summer fuel season.

“So the plastics guys and the gasoline guys are fighting for allocation of the same feedstock,” Schoen said.

“We have not bought a lot of resin at the new high price. We still have a lot of resin at the old price. But every Tom, Dick, and Harry is calling us to buy resin, and we’re able to sell it at a higher price,” he said. “My business is up almost 20 percent over last year. And other quality sellers are seeing business surging like crazy.”

A lot of that demand comes from automotive. “We saw auto sales up 11 percent in January over last year. Every auto company but GM had a surge in sales. What’s keeping

the market active right now is automotive,” he said. “But also electronics is keeping people busy. Apple uses a lot of plastic for the 37 million iPhones it sold in the last quarter.”

Industrial demand is also very strong. “Engineering companies put a lot of projects on hold last year waiting to see what happens to the economy. They’ve come back in a big way and demand for engineered thermoplastics is up big time,” Schoen said. “They’re more confident about starting new projects.”

Of course, there are exceptions to every rule – and one big exception is the appliance industry, which hit a snag despite an ongoing housing recovery. “U.S. manufacturers are losing share like crazy to the Asians (Samsung and LG),” he explained. “We’re not seeing the programs they promised were slated for production.”

Nor do U.S. appliance makers “have any foothold” among Asian manufacturers or consumers. “Their components are not used in Asia. Sure, they do these joint ventures with Asians, but the Asians don’t need us. They gave it all away for cheap labor and now they’re paying the cost,” he said.

Yet for others, the manufacturing recovery seems boundless. “Our backlogs for the next six months are far exceeding what we had for the first six months last year,” Schoen said.

Feedstock Shortages

“Polypropylene is seeing 25 to 30 percent increases, while polycarbonate [electrical components, CDs, and Blu-ray discs] is only up 5 percent,” said Cody Bates, president of TDL Plastics in Corpus Christi, Texas.

“Everyone is saying we’re short on feedstock, so producer prices are getting driven up. Feedstock is going into other competing products like gasoline and other refined products,” he said.

At the same time demand for plastic resins is picking up. “Demand seems to be robust, not gangbusters, but robust,” he said.

In his monthly State of the Market roundup that he distributes to his clients, he described January as “off to a hot start with good demand for materials, and pricing has followed suit,” he said. “Prices across the board are either up, going up, wanting to go up, or feeling left out because they have not been asked to go up.”

He did expect demand growth to result in price increases. What he didn’t expect were supply shortfalls to exacerbate the increases. “This is causing some real headaches

for producers trying to find enough feedstock, and end users who have set pricing for the first quarter,” Bates said. “Now they are getting slammed with increases.”

The price increases for polypropylene “won’t be fun or pretty, but we are just going to have to deal with it because the prices are here to stay for the near term,” he said.

But polyethylene (read plastic bags) prices are up just 3 cents in February after increases of 7 to 10 cents in early January. “Producers are finding it hard to get more increases because end users have been watching prices on natural gas flirt with very low numbers,” he said.

Engineered plastics are also seeing increases with ABS the standout – a product that winds up in everything from automotive trims to Lego blocks.

“We do believe that there is going to be a significant push up in ABS pricing, and that there are some real legs to it,” Bates said. “We believe that all of the domestic prices are going to go into effect for the full amount.”

So he urges customers to “buy now because you will not be able to get deals for much longer at all.”

Pushback

“Yes, prices are threatening to go up, and we’re trying to push back,” said Matt Davidson, president of Xten Industries in Kenosha, Wisconsin, an outsource manufacturer of a wide gamut of injection-molded plastic products.

He did see a similar increase in polypropylene prices last year from about 87 cents a pound to \$1.20 in the space of four weeks during the spring, “but it was back to 85 cents by Dec. 31,” he said.

“Business is good, and it was good last year; manufacturing has been doing pretty well recently. But I don’t see anything significant that would justify raising polypropylene prices by 25 percent right now,” he said.

“Call me a cynic, but where is the demand coming from? Europe is in the dumps and China is softening,” he said. “If there are just five companies left making the stuff today, you shut down one plant and you can claim there are shortages.”

Yet demand is up. “Manufacturers that survived the storm of 2008 and 2009 are doing okay now. Those of us who made it through the last few years feel like the last men standing – and, for us, business is good,” Davidson said.

His consumer products customers are doing well “but nothing special.” But food service is picking up, particularly fast food restaurants in need of warming racks, beverage and coffee dispensers, and other plastic products. “That business is up 20 to 30 percent from the bottom and is up about 4 percent over last year, I consider that strong,” he said.

Now he is getting inquiries from automotive manufacturers, who have not been traditional customers. “I can confirm that the automotive market is picking up strong for injection molders,” he said.

A Better 2012

“There’s a general improvement in the state of the economy. It’s not robust, but it is better,” said Arch Van Meter, president of Mega Corporation, in Schaumburg, Illinois, a producer of injection-molded components for military and industrial applications.

He sees 2012 “off to a better start than 2011 – our customers and competitors are showing increased sales,” he said.

“The rebound seems to be led by automotive, electronics, and industrial components. But the defense segment is definitely down. From my perspective, we won’t see any improvement through 2012,” he said.

“When military personnel are cut there are less vehicles needed and less components for those vehicles,” he said. (It’s also hard to see how defense-related manufacturing can improve with half a trillion dollars in defense cuts down the pike.)

The price increases for raw materials have not come his way, at least not yet.

“What we’re seeing is that material prices for polyethylene and polypropylene are somewhat steady. We’ve seen small increases in polystyrene [coffee cups] and PVC [pipes and electrical components]. And polycarbonate prices are showing some softness,” Van Meter said. “We haven’t seen the big increases that you describe.”

The Labor Department is scheduled to release the producer price index for January on Thursday, Feb. 16. Commerce releases durable goods orders data for January on Tuesday, Feb. 28 at 8:30 a.m. ET. The above also provides an early reading into factory orders, industrial production, and ISM. Most of the price increases described above are slated for February, although there were some increases in January.

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