

Manufacturing, consumables, & packaging news



General Supply Chain Observations & Updates

Supply chain & freight

Words of wisdom

We attended the S&P Global Q2'2024 Trade and Supply Chain Outlook webinar earlier this month and asked the question, "where can manufacturing companies get the most 'bang for their buck' in terms of investing in supply chain resiliency?"

"You can't invest in anything if you don't know what's going on across your entire firm. Know what your exposures are across your entire firm and build and train your procurement teams appropriately," said Chris Rogers, Head of Supply Chain Research at S&P Global Market Intelligence, in answer to our question.

His answer aligns to what we tell our clients today. ERA Group believes in taking a holistic approach when addressing cost optimization and supplier management. It makes sense that this same advice applies to supply chain resiliency, too.

Trouble in the water

The Red Sea Crisis continues to inflate shipping carrier rates. According to Sea-Intelligence CEO Alan Murphy, "It seems that in the present market environment, shipping lines are attempting to capitalize as much as possible from the relatively higher rates by not curbing capacity. The likely result, however, will be continued downward pressure on spot rates."¹

Meanwhile, drought continues in the Panama Canal, resulting in restrictions impacting the number of vessels that can pass through the canal each day, as well as the amount of cargo vessels they can carry. The New York Times reported recently that the Panama Canal Authority has reduced daily traffic by nearly 40 percent compared to last year, due to extremely low water levels, leading many ships to take longer ocean routes.²

Truck tonnage declines continue

The trucking industry and our economy go hand-in-hand. Unfortunately, the freight recession has continued through Q1 2024, according to trucking freight tonnage numbers.

"Tonnage in March suggests that truck freight volumes remain lackluster, and it is clear the truck freight recession continued through the first quarter... highlighting ongoing challenges the industry is navigating," American Trucking Association Chief Economist Bob Costello said in a news release.³

Sources:

1 - TheLoadstar.com

2 - New York Times, Panama Canal Drought Slows Cargo Traffic

3 - ttnews.com

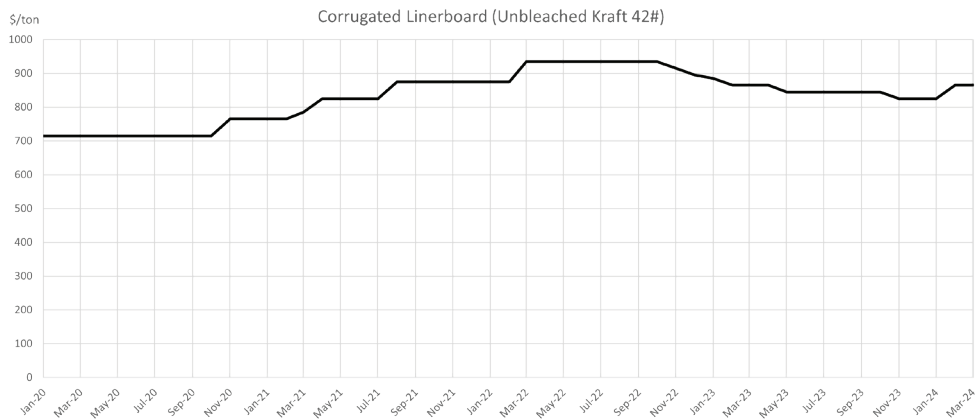
KEY TAKEAWAYS: As it relates to supply chain resiliency, it is more important than ever to be an expert on the macro and micro views of your supply chain. This includes the most critical and visible components of your supply chain, down to small expense items. If your information system does not provide this visibility, it may be time for an upgrade. As it relates to transportation, negotiation with sea freight carriers should take into consideration the events in the Middle East. Now is an excellent time to negotiate contracts with trucking companies, as they are likely eager to fill their available capacity.

Corrugated

The RISI index in February increased \$40 per ton, but not the full \$70 per ton announced. So the price increase “did not occur quite as quickly as we’d hoped and not in the same amount, because of the index,” said Tom Hassfurther, Executive VP of Corrugated Products, at corrugated powerhouse Packaging Corporation of America.⁴

One major integrated containerboard and box producer said customers are being charged higher prices on a “take it or leave it basis”, and that the increase in old corrugated container (OCC) prices and inflation are to blame.⁵ However, some corrugated contacts expressed concerns about “not turning off and away customers with high box price increases,” especially amid a reduction in actual US box shipments by 5% from last year.⁶

KEY TAKEAWAY: While the recent corrugated increase is certainly real, we have seen some suppliers try to take advantage of the situation by passing along higher percentages than the market justifies. If you are receiving an increase, be sure to ask that supplier if they passed along all the prior decreases from late 2022 through late 2023. If not, then they have had padded margins since at least early summer 2023 and should not be taking advantage of you now. As always, if you do not have a formal agreement in place with your corrugated supplier that explicitly governs how price changes are managed, the time is now to negotiate such an agreement.



Sources:
4 - PackagingDive.com
5 - Fastmarkets.com
6 - Fastmarkets.com

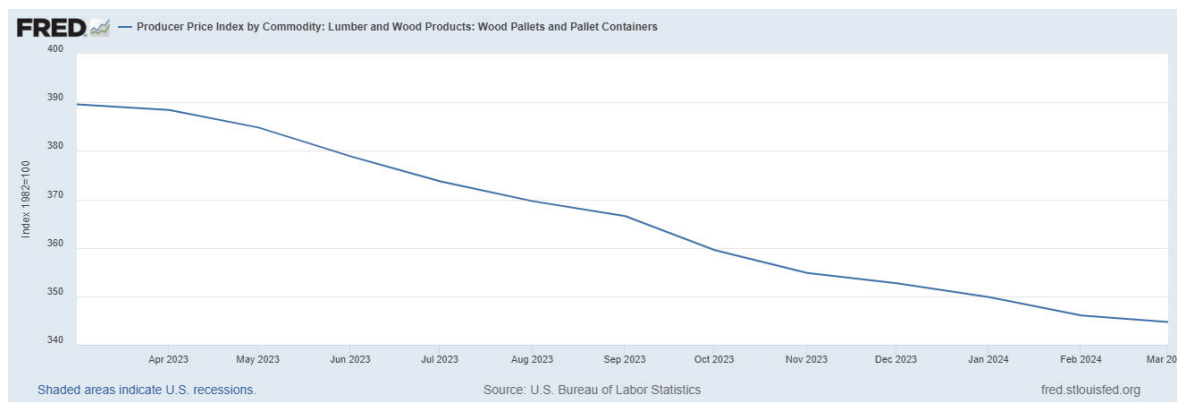
Lumber/Pallets

Lumber sales remained stagnant in Q1 2024. Uncertainty in the housing market and high interest rates have construction activity at a standstill. Consequently, lumber prices remain flat.⁷

Wooden pallet prices continue to decrease. “We have a lot of inventory, and that’s having an impact on prices... lumber is also more readily available than it has been in four to five years, which has allowed new pallets to have a different impact,” said Marcus Blood, of leading pallet company 48Forty Solutions, in a recent YouTube video.⁸

Pallets represent a true supply-and-demand market, and right now supply is up, and demand is down.

KEY TAKEAWAY: Currently, capacity for both recycled lumber and new lumber pallets is robust. Push your supplier(s) to pass along the justified price decreases or consider going out to bid for your pallet needs.



Sources:
7 - Madison's Lumber Reporter
8 - YouTube - 48Forty Solutions - Pallet Market Update: Spring 2024

Chemicals and Gases

Chemical production declined slightly in March.⁹ Chemicals across the board are experiencing reduced pricing due to a surplus of material, especially propylene.¹⁰ Similarly, according to S&P Global Commodity Insights, “the global petrochemical sector will continue to be plagued by oversupply and weak demand in 2024.”¹¹

Petrochemical production declines and the fact that natural gas prices have declined steadily since January,¹² mean it is obvious that the chemical sector is ripe with opportunities for negotiating lower prices.

KEY TAKEAWAY: This is a perfect time for price negotiations or tendering events for your chemical requirements.

Chemicals Production and Producer Prices

% CHANGE Y/Y, 3MMA, MARCH 2024

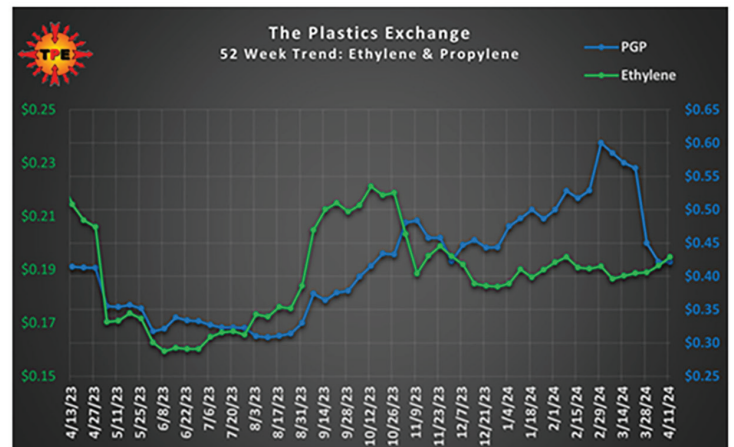
	Production	Producer Prices
Chemicals	-0.4	-5.6
Agricultural Chemicals	1.4	-15.3
Consumer Products	1.9	1.9
Basic & Specialty Chemicals	-1.2	-7.3
Basic Chemicals	0.5	-9.5
Inorganic Chemicals	-3.8	-10.6
Bulk Petrochem & Organics	3.1	-11.6
Plastic Resins	1.1	-4.6
Synthetic Rubber	-9.9	-6.9
Manufactured Fibers	-6.0	1.2
Specialty Chemicals	-6.1	-0.1
Coatings	-3.0	-1.1
Other Specialties	-7.5	0.4
Feedstocks	n/a	-24.0
Capacity Utilization	77.9%	n/a

Sources:
 Chart Data: American Chemistry Council
 9 - American Chemistry Council
 10 - ChemAnalyst.com
 11 - S&P Top Issues Chemicals 2024
 12 - ProcurementIQ

Plastics

Demand remains soft, and polypropylene prices continue to trend lower. According to a LyondellBasell Industries press release, sent to NBC affiliate KXAN, regarding their Q1 2024 earnings, “globally, tepid demand for durable goods continued to challenge volumes and margins for polypropylene and propylene oxide.”¹³

As with the overall chemical sector, there is plenty of supply, and not much demand.¹⁴ For resin prices, “soft prices [are] about to get softer... The market awaits a significant price decrease for April, which should break into double digits,” according to the Plastics Exchange.¹⁵



KEY TAKEAWAY: Commodity-based plastic products like stretch film (which just had a late breaking 3-cent per lb. increase) are still lagging the overall plastics market decreases, but we anticipate that they will follow suit soon. Purchasers of all types of plastics and resins should consider supplier negotiations or tendering events to obtain savings in the current environment.

Sources:
 Chart Data: Source: The Plastics Exchange Market Update—April 12, 2024
 13 - KXAN - LYB Reports First Quarter 2024 Earnings
 14 - Ferguson Weekly Commodities Insider
 15 - PlasticsToday.com and the The Plastics Exchange Market Update

Metals

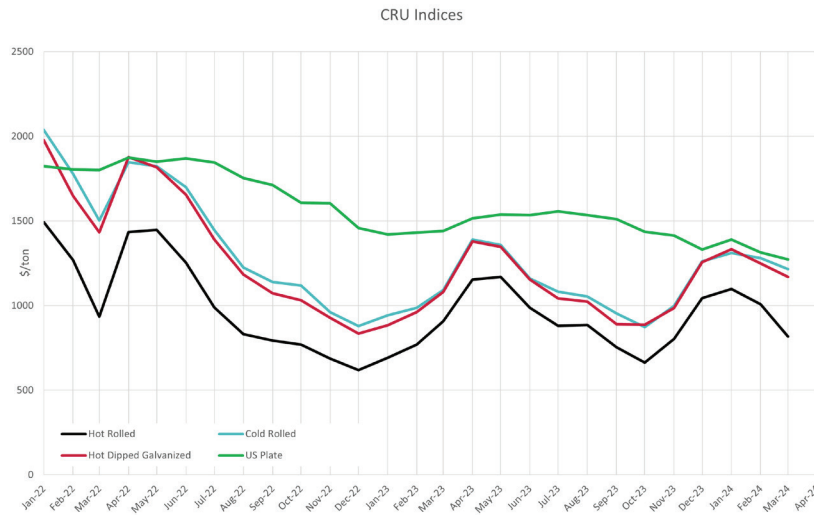
The steel market is currently full of contrasts. Residential construction is low, but infrastructure projects and non-residential construction are on the rise. This has led to a “roller-coaster ride” for steel prices. Both hot-rolled and cold-rolled prices are decreasing, while Aluminum prices are also lower.

In contrast, LME nickel prices are up and will likely impact surcharges.¹⁶ Copper futures prices are higher than they have been since April of 2022. Copper supply shortages – made worse by new sanctions on Russian metals in the US and UK – coupled with strong demand, have led to copper prices being up by 16.3% year to date.¹⁷

KEY TAKEAWAY: Now is a great time to stock up on steel or negotiate with your steel suppliers. If you do not have a contract that governs price adjustments, it's time to put one in place to take advantage of the declining market, as well as to prepare for when the market rebound begins.

Sources:
Chart Data: American Chemistry Council
16 - Ryerson.com

17 - WSJ, Copper Futures Touch 2-Year High on Worries About Supply



About the Authors

Patrick Garr and Travis Cantrell are Manufacturing Specialists with ERA Group. They both hold engineering degrees and have over 29 years of collective experience studying complicated client expenditures in Direct Material, Industrial Chemicals/Gases, Packaging Supplies, 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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