

Raw Materials Update

From the Procurement team, this update contains information regarding the status and pricing of raw materials impacting the label and packaging materials industries.

Macroeconomic Overview

The economic landscape in the US and around the world is still being severely impacted by the COVID-19 pandemic. Strong demand coupled with continued COVID restrictions and labor shortages are the biggest source of continuous supply challenges and inflation. While chemical products were largely impacted in 2021 due to Storm Uri, this year has the added disruption of sold out capacity of bulk pressure-sensitive paper liners and paper facestocks. Until demand cools, or industry capacity catches up, the global supply chain will continue to face challenges.

Adhesives & Chemicals

Acrylic Adhesives

Supply availability of key acrylic solvent and emulsion adhesive components have improved in late Q4 21 and early Q1 22. While most 2021 supply related allocations have either been lifted or have improved, the overall demand remains extraordinarily high which continues to lead to inflationary price pressures in Q1. In addition, bulk transportation availability continues to be constrained, which contributes to both price and supply pressures. This is expected to continue well into 2022. Propylene and solvent feedstocks are forecasted to be more balanced in early 2022, but are still relatively volatile because of the high industry demand. Any unforeseen supply issue will drive even more volatility in this market. These high demand patterns coupled with corresponding logistical constraints are expected to continue throughout the majority of 2022.

Hot Melt Adhesives

Several Hot Melt Adhesive components have been impacted in Q4 2021 and early 2022 from both a supply and inflationary perspective. The inflationary pressure is driven primarily by a constrained supply of the global chemical industry and the relative high demand for these raw materials. This upward price pressure and tight supply scenario is forecasted to continue throughout 2022 for key Hot Melt adhesive components.

Silicones

From Q1 through Q3 last year the overall silicone market was balanced. Higher pressure-sensitive demand was offset by lower demand in primary silicone sectors like automotive, medical, electronics and aerospace. Beginning in Q4 and continuing into early 2022, the overall supply/demand balance has reversed and is now very tight. This is driven primarily by supply constraints in China for both siloxane and silicone metal. This constraint has put significant pressure on both supply and pricing going into 2022 and is forecasted to continue for at least several quarters. Siloxane typically has a higher market value in non pressure-sensitive industries and the demand remains very high in these markets.

Film

Polypropylene (PP)

Polypropylene inventories are healthy due to strong domestic production in Q4 21 as well as the arrival of long-delayed resin imports chasing very high pricing. As a result, Polypropylene resin producers are beginning to ease pricing. This reduction has been partially offset by slightly higher propylene monomer costs and significant 'non-resin' costs including energy, labor, and freight. Consequently, while prices have come down from very high levels in mid 2021, they are still ~40% above 'normal', and are not likely to return to historical levels in 2022 as previously thought.

Polyester

Production of PET precursors continues to be rate-limited by feedstock availability, specifically Acetic Acid. Together with high demand and rising oil prices, this has resulted in a much higher PET price forecast for Q1 and will remain high throughout the year. Due to very high demand for PET film in a variety of industries, as well as the impact of higher freight, labor, and energy costs, film producers have been able to pass these higher resin costs on.

Paper

After reaching an all time high, northern bleached softwood kraft prices decreased at a moderate pace for the past six months, and are expected to remain relatively stable for the first half of 2022. The biggest factor driving more inflation into 2022 is supply of pressure-sensitive paper materials remaining tight due to continued strong demand, sold out mills, logistics challenges and staffing shortages. The recent strike in Finland has added further constraints on the global supply of papers and pulp, which is driving costs up further. Several paper companies announced market increases during Q4 2021 with more following in Q1 2022. The effects of these challenges are expected to last well into the second half of the year.

Freight

The freight market continues to face capacity challenges in all transportation modes (Ocean, Air, Truckload, LTL, Parcel, Intermodal and Rail) as the global supply chain struggles with the effects of the continued COVID-19 pandemic. Freight rates continue to climb as demand far exceeds supply. Driving the increased demand was another year of above-average consumption, supported by the increasing reliance on e-commerce. A watch out for this quarter is the Lunar New Year and Olympics, which could disrupt supply chain flows from China and extend supply chain challenges for shippers.

Summary

The raw material markets we rely on show continued turbulence. While we expect to experience modest improvement in film related materials, most other raw materials show strengthening demand that outpaces supply. Even with the uncertainty of the challenges impacting our industry, our commitment to you and your business remains our priority. We continue to leverage our global network of suppliers to ensure we get the materials to keep our and your customers operational. Thank you for your business and we are committed to keeping you updated as the situation evolves.