

Raw Materials Update

Q2 2019

Macro-Economic Overview

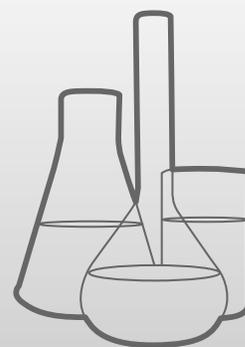
The United States economy appears to be healthy. Following a few recent slow months, leading economists are now forecasting both GDP and inflation for 2019 between 2-3%. Consumers are strong but cautious. Their confidence is fueled by employment but restrained by geopolitical uncertainty. Crude oil prices continue to increase steadily throughout the year and will likely stabilize near \$60/barrel.

Adhesives & Chemicals

Acrylic Adhesives: Propylene prices fell in early 2019 because of soft demand versus forecast and strong capacity utilization. The fall in propylene had limited impact on adhesive costs because acrylic monomer markets remain tight. The outlook for both solvent and emulsion adhesives is stable.

Hot Melt Adhesives: The sharp decline in crude oil in late Q4 rebounded in Q1. Relatively soft demand coupled with a balanced supply of intermediate chemicals helped stall the upward trajectory on raw material prices. The outlook is stable for the next few quarters.

Silicones: Siloxane supply became extremely tight in 2018, putting upward pressure on prices throughout the year. Although demand softened in Q1, the same outlook continues for 2019 until additional capacity is added in early 2020.



Paper

After years of inflation, North America pulp prices are starting to retreat very gradually. Unfortunately, though, North American mill capacity is strained from new closures and conversions to non-Pressure Sensitive paper grades. Inventory levels remain low and overall production costs are projected to rise 3-4% this year.

Film

Polypropylene: Domestic demand has been seasonally soft, exacerbating inventory levels and lowering spot pricing. Utilization rates are in the low 80% range. As a result, polypropylene pricing eased in the first quarter bringing North American pricing in line with global markets. However, export demand has picked up on those lower prices. Industry forecasts call for a slightly higher resin prices in Q2 and beyond.

Polyethylene: Polyethylene prices continue to be stable as operating rates are nicely balanced with demand. While demand continues to be strong, new capacity slated to enter the domestic market has reduced upward pricing pressure, and the current forecast is flat to slightly down for the balance of 2019.

Polyester: Polyester demand continues to be healthy with utilization rates around 90% in the first quarter. High demand has been compensated by lower feedstock pricing, driven by the oil price decline of Q4 last year. Consequently, polyester pricing finished down in Q1 vs prior quarter, and about even with prior year. However, with oil prices already moving back up and limited excess capacity available, the forecast for the remainder of 2019 is higher pricing.

Freight

The pricing power held by trucking companies in 2018 will weaken in 2019 but not disappear. Thanks to healthy freight demand and uncertainty about future capacity, trucking firms still have pricing leverage over their shipper customers. Despite an eight-month slide in spot market truck pricing, various economic indices and comments by shippers suggest volume and overall rates will rise.

