AVERY DENNISON | Label and Packaging Materials

Raw Materials **Update**

Q4 2019

Macro-Economic Overview

While the global economy continues to grow at a moderate rate, forecasts are becoming increasingly pessimistic, with trade tensions cited as the leading cause. Despite slower than expected manufacturing activity in the U.S., our domestic economy has been fueled by high employment and consumer spending. However, consumer confidence fell in September and spending growth stalled, suggesting a strong consumer alone may not be enough to sustain the recent high levels of growth for the economy at large.

Adhesives & Chemicals

Acrylic Adhesives: Propylene prices have been held stable throughout 2019 with strong producer utilization rates accompanying softer-than-expected demand. Adhesive market capacity remains unrestrained. Prices are expected to trend up slightly for the rest of this year.

Hot Melt Adhesives: The correlation between crude oil and hot melt component pricing continued in Q3, with prices expected to trend up slightly for the rest of this year.

Silicones: The silicone market remains balanced in Q3 and is forecasted to be stable for the rest of the year, driven by improved siloxane supply and lower than expected demand.

Paper

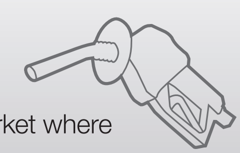
With global demand for pulp low, raw material costs low and inventories high, pulp prices have dropped over the past few months. Prices are expected to be near a “bottom” now and remain stable for the next few quarters.

Film

Polypropylene: With supply growing in line with demand and adequate inventory in place, the forecast for polypropylene pricing is primarily driven by feedstock changes. With propylene monomer forecasted to increase along with oil prices over the next six months, polypropylene will likely continue to see the same slight to moderate increases for the next few quarters.

Polyester: As expected, a weak PET bottle season resulted in reduced demand for PET feedstocks. Coupled with relatively stable underlying supply dynamics (notwithstanding the potential for Middle East supply shocks), polyester prices are forecasted to be stable for the rest of this year.

Freight



Despite many small trucking bankruptcies and a handful of larger carrier failures, the freight market continues to be stable. Growth is lower than in 2018 but still solid, mainly supported by retail, consumer goods, and food and beverage. Contract rates, which accounts for 75% of freight in the U.S., have turned slightly negative year over year. The “freight recession” is contained within the truckload spot market where rates have seen a decline of 15%.

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