



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

AUGUST 2009
TENTH YEAR

Dear Colleague:

Recovering recession... summer shows signs of stability. More mixed signals on the global economy: positive news on both manufacturing and housing but still increasing unemployment.

Such inconsistent economic indicators are common at a turning point in the business cycle. We still expect the contraction caused by the deepest recession in over 50 years to end soon although do not expect real growth in GDP until early 2010. Unemployment is expected to be chronic as the jobless recovery begins and younger workers rather than older ones are laid off more frequently than in other recessions, due to experience and greater work ethic stemming from older workers. It will be 2012 until production recovers to pre-recession levels and will be led by producers of sophisticated high tech goods such as medical equipment, defense electronics, satellites, advanced machinery, biotechnology, internet routers, renewable energy and cyber security. Plan now to target companies in these industries to drive your own company's recovery.

The U.S. led the world into recession and will lead the way out as well. Europe will stay stuck in recession until late 2010 while Russia and Japan could lag until 2011. China, India and Brazil are already in recovery. Inflation looms with some surveys indicating estimates of a 3% annual rate beginning soon – a self fulfilling prophecy as businesses expecting costs to rise, hike prices.

Overcapacity will limit ocean cargo rate hikes for the next few years, long after global demand bounces back...figure on 1-2% increases until 2012 – good news for importers. Rates to get cargo to ports via truck will climb 5-8% by 2011 depending on the strength of the economic recovery.

Crude oil prices will be extremely volatile through August trading in the \$65-85/bbl range, driving up commodity plastic resin prices as we are seeing now. (See Pricing section below).

Planning to build inventories for the October peak sales month traditional in our industry will pay off for both manufacturers and distributors who should be talking about this now.

TRENDS: Another tech evolution is burgeoning...your next computer may be a mobile smart phone as m-commerce takes hold first with consumer goods and closely followed by business-to-business transactions in our industry. Tracking shipments; making presentations; ordering inventory; credit card transactions; insurance claims; converting text to speech; billing customers; reading prints and a myriad of other applications as your mobile cell phone replaces your office computer and phone.

Some other trends worth noting: Global PS and ABS resins growing at 3% annually, while fluoro polymers growth in demand is at 4.5%...all plastic resins are exhibiting low single digit growth.

European sheet extruders, an € 11 billion business, are reporting a 7% fall in consumption.

Editors Note: For a listing of the top 20 film and sheet producers in Europe, email us at: mel@globalplasticsletter.com.

PMMA manufacturers such as Lucite Intl, Degussa, Arkema and ICI whose products sold under names of Plexiglas, Acrylite, Perspex, Lucite and Acryplast are defendants in a class action suit that involves any company who purchased acrylic sheet, resins and pellets from any of the defendants within the USA between 1995 and 2003. A proposed settlement is in progress in a U.S. District Court in Pennsylvania and claims must be submitted before Oct. 15, 2009.

Inflation in Plastic Resins and Materials is estimated at 3% in 2Q 2009 over 2Q 2008...1Q figures showed an almost 1% drop in prices, so inflation is back in our industry and will continue.

OUTLOOK EUROPE ...by Chris Parry, our special European correspondent based in the U.K.

A relative newcomer to the European extrusion scene has gone into administration. KIBO Kunststoffe, who went into production with a Twinwall polypropylene extrusion business around 3½ years ago in Kirschheimbolanden in Germany, is currently running under the management of the administrator. It is hoped to maintain the business as a going concern. Specialising in heavier grades of sheet, (up to 3000gsm), KIBO gained some interesting applications in the heavy, re-useable packaging market. However, the downturn in European manufacturing, especially automotive, substantially reduced the opportunities. Bayer Material Science has appointed Whitchem of Newcastle-under-Lyme as their UK distributor for Makrofol and Bayfol films.

OUTLOOK ASIA ...by Mal Binnie, our special Pacific Rim correspondent based in Australia

All the financial news from the Pacific Area is trending positive with the Australian economy recovering rapidly assisted by the Governments stimulus package and also due to China and India continuing to grow both domestically and their need for imports Reports from Mulford Plastics, EPlas and Cut to Size indicate market recovery well underway although pricing is still under pressure. Plastral, under MD Tony Wetton, are reporting steady growth. But the impact of 2008 is still being felt as a leader in the Bath and Spa Pool industry Lanark has had to call in the receivers. Arnold Mouw, COO Mulford Plastics has announced promotions in his NZ operations: Kevin Murphy promoted to the position of South Island Manager and Graeme Rice to replace Kevin as Auckland and Hamilton Branch Manager. Mulford's NZ continues to expand and are searching for additions to their team. Global mergers and acquisitions activity is expected to surge in the latter part of this year. Palram Israel looks to be strengthening its presence in the Australian market by acquisition. Noida, Indian based Polyplex Group the producer of PET films is continuing to expand and change its operations in South East Asia and China. Polyplex is the 4th largest global supplier of PET films. Teijin, Osaka, Japan continues its restructuring by transferring its 50% shareholding in Natureworks LLC to its partner Cargill Inc. China's domestic plastics industry is reporting a significant increase in opportunities supported by the Governments large infrastructure spending. There are projections of a return to double digit growth by Q4 but this growth may not be spread evenly due to continuing overcapacity in some sectors. The Chinese National Development and Reform Commission [NDRC] has granted approval to Sabic to jointly

participate with Sinopec in the \$3billion petrochemical complex under construction in Tianjin. Reports from Chinese, Indian and other Asian exhibitors from the NPE Chicago continue to be mixed with some exhibitors reporting solid sales leads and others disappointed with the low attendance.

NOTE: Bundanoon residents a small NSW Australian country town have banned the sale of bottled water, primarily in PET. IS THERE any truth that this is a mystical Scottish town and that WHISKEY will replace the water!!!!

OUTLOOK NORTH AMERICA by Bill Shields, our special correspondent based in the U.S.

It appears that we have hit the bottom of the Great Recession. Orders are maintaining their “lower level” as reported by many companies in our Industry. Smart sizing of inventories and personnel have helped many in the Plastics Industry to strike a profit again. Crude oil prices jumped above \$71 per barrel on speculation that the recovering global economy will boost crude demand. Canada’s jobless rate rose in June to 8.6% but a surprisingly low number of jobs were lost; only 7,400 compared to May’s number of 42,000. Mexico lost nearly 600,000 jobs since June 2008, which is a 4.1% decline. Worldwide sales of semiconductors slipped 20% year over year to \$51.7 billion in 3Q. The Society of the Plastics Industry (SPI) announced a cut in staff, reducing of office space and change in the allocation in dues. The Society of Plastics Engineers (SPE) also reduced its staff and moved into a smaller facility. Will IAPD be affected as well? BASF announces it will join Sinopec and invest \$1.4 billion building 10 new chemical plants in China...Boeing purchases Vought Aircraft. Curbell Plastics announced some management changes with Derek Garner leaving the company and Art Ghose remains as CEO...Dow Chemical is selling its Texas acrylic acid and esters plant to Arkema for \$50 million.

PRICING: Commodity resins such as PE, PP, PVC, PS, PET, nylon and thermosets are all exhibiting sharply higher prices as national industrial buyers forecast higher prices for most raw materials, including metals, through the end of the year.

MANUFACTURER/DISTRIBUTOR BRIEFS:

Simona sales stall after poor 1Q...down 32% year over year – restructuring looms. Rochling extrudes sheets & rods to size, including diameters and thicknesses. Teijin upgrades Biofront bioplastics – to be almost as durable as PET. Norplex-Micarta undergoing \$1.8 million plant expansion. New thermoplastic Polyphosphonate (PPh), from FRX Polymers unit of Triton Systems, is new flame retardant cousin of PC. Bayer MaterialScience offers new Makrolon® PC to meet demands for LED applications. SABIC IP introduces Valox iQ resin and Ultem composites. Reynolds Polymer Technology debuts acrylic water fountain and virtual aquarium in Macau. Total Plastics unit of A.M Castle reports 2Q sales down about 30% year over year. Solvay Solexis launches new Halar® ECTFE film for photovoltaic industry. Ensinger introduces PEEK line based on Victrex® ST.

MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES: Dow Chemical plans to sell its PS, ABS and PC business to a newly formed unit, Styron Corp. Rowmark buys engravable sheet division of Delmar Products. Plastic Lumber Co liquidating. Bayer MaterialScience relocates PC film production from CT to MA in U.S. Russian PMMA sheet producer Dzerzhinsk Orgsteklo (DOS) to restart production in October. Spartech to sell many non-core assets...details not released at this time.

PEOPLE: Industry veterans Jim McCormick, Dick Garthwaite and Derek Garner leave existing positions and are in process of re-locating at time of publication. Optiglass adds David Ruff as Operations Manager. Westlake Plastics appoints Harvey Stein, formerly of Ticona as medical and life sciences, consultant.

INDUSTRY INTERVIEWS: Peter Ferraro, Product Manager, Plastic Distribution, **Vicwest Plastics**, Ontario, Canada. Peter, a graduate of Humber College entered our industry in Canada with Cadillac Plastics, which became GE Polymershapes and then joined Vicwest. He lives in Barrie, Ontario with his wife and three children. We interviewed Peter by phone and email at his office in Stratford, Ontario.

Q. Vicwest has been in business since over 100 years...what is its history? Who are you today?

A. *Operations began in 1905 when Winnipeg Ceiling and Roofing Company opened its doors manufacturer of ornate roof and sheet metal products. The mid to late 1900's brought about a number of industry related acquisitions, product line expansions; resulting in many different company name changes due to product and image positioning. By this time Vicwest is the largest manufacturer in all of Canada with facilities in nearly province. The past ten years we have continued to expand our distribution lines with various residential products sold to retailing chains across Canada as well as our plastics product lines. Vicwest continued with a variety of acquisitions, opened additional manufacturing facilities and became a publicly traded company in 2004. It is important to celebrate our history of success, and acknowledge the many milestones and achievements. It is equally exciting to look forward. Today, Vicwest is a company focused on building strength, internally with our employees and externally in terms of enhancing our relationships with customers and of course the products we sell. The idea of moving into plastic stock shape distribution was actually to compliment the construction industry. The diversification opened new markets to existing products and helps to balance out the seasonality of construction in Canada.*

Q. What do you manufacture? What do you distribute? What is the percentage mix?

A. *Vicwest manufactures over 50 various products grouped in to the following product categories; steel roofing systems, steel wall systems, roof deck, floor deck, insulated foam panel and architectural panels. We also distribute a variety of plastic products, many for the construction industry and industrial applications. It's a safe bet to guess that we also distribute well over 50 more products with the bulk of these catering to the residential and agricultural markets. Well over 100 products in total. With specific reference to industrial plastics, we distribute Palight foam PVC from Palram as well as acrylic, polycarbonate, nylon, acetal, UHMW, hdpe, polypro and pffe.*

Q. How has business been this year?

A. *From an overall company perspective sales have been down, but we have been fortunate to not be in as bad of shape as many others in the building construction industry. From a plastics stand point; our sales are well up over last year. This would be expected of any start up. Of course we would always like to see higher sales and margins.*

Q. What has been the effect on your business ...and on Canada's plastics business generally, of the buy out of Warehoused Plastics by Piedmont Plastics in the U.S.?

A. *From my perspective it has brought a little more consistency to the market. One less player means one less strategy to understand and counter against. It has probably strengthened the market overall. Located in Ontario, both of these companies were/are regular competition for us.*

Q. How did the acquisition of Peckovers by ThyssenKrupp last year change the dynamics of the market? Is it still true today?

A. *They appear to have restructured and reorganized. Change is always confusing to the marketplace, at least in the short term.*

...to be continued in the September 2009 issue.

Information contained in this newsletter has been taken from trade and statistical sources that we consider reliable but we cannot assure its accuracy or completeness. Any opinions expressed reflect our judgement as of this date and are subject to change.

MEL ETTENSON'S GLOBAL PLASTICS LETTER™
is published monthly by Lucitron Corporation,
P.O. Box 250235, Franklin, Michigan 48025,
USA. Postage paid at Royal Oak, Michigan. \$175 for 12 issues.

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