



GLOBAL PLASTICS LETTER

E-mail: mettenson@globalplasticsletter.com
Website: www.globalplasticsletter.com

“A World of Plastics Information”

JANUARY 2006

Dear Colleague:

Roiling Reassessments Rage... Now for our annual look ahead: The upcoming year of 2006 should be the second best year of this century – just slightly below this past years double digit increases in sales and profits. We expect raw materials price inflation to be back to single digit rate increases, as compared to double digit rates in 2005.

Note: In our January 2005 issue, we forecast:

Correctly:

- Sales and Profits at 21st century records – high single digit-low double digit rates of increase
- Persistent inflation
- Continued consolidation in both the distributor and manufacturer sectors
- Continued growth in China and India

Incorrectly:

- Raw material price inflation at *only* single digit rates
- Stability of feedstock prices
- Further weakening of some major distributors

A look back at 2005 offers some insights into the future... 2005 was a year that saw **continued** huge increases in the price of oil and natural gas and thus all petrochemicals. Growth in 2006 will again be decided by stability of feedstock prices as well as substitution of plastics for heretofore traditional metals applications affected by skyrocketing metals prices (both ferrous and non-ferrous).

The second half of the first decade of the 21st century is upon us and with it comes the challenge to maintain the first half growth of our industry generally recognized to be in the 4% per year range. However, the global bond markets are behaving as if the global economy is in trouble, amid expectations that economic growth will slow because interest rates will fall... the so-called “inverted yield curve”, indicating that investors are taking lower interest rates for longer term bonds than for shorter term bonds. Worth watching these trends to see how 2006 will shape up.

TRENDS: Important distribution industry indices for November 2005 indicate an increase from the prior month in the Purchasing Managers Index from the Institute of Supply Management. However other indices such as Durable goods orders, Industrial production, and productivity. exhibited slight decreases, indicating a mixed economic trend going into the new year.

Perhaps a harbinger of things to come for a segment of our industry... Microsoft bans use of all PVC in their products as well as packaging, joining Hewlett Packard and Walmart in this initiative.

Next month we will be attending the NAW's annual conference where one of the themes considered to be vital to industrial distribution is **creating value**. They have published two important books on this subject: *The Value Habit* and *Distribution Value Map* — available from www.naw.org . One excerpt: “ It's not what you know, but what you do”. Since customers have access to much more information via the internet and many more supplier options than ever before, the communicating of value and yes your brand is more vital than ever to survive.

Last month we made mention of a website that tracks actual trends in our plastic shapes market at: www.imidata.com . Several readers have found it useful and we are repeating the website and instructions on how to access: click on “product listing then “pricing” and then “group1 – by nation”– most useful information.

Some important technical developments headed for commercialization toward the end of this decade or within the next decade of this century include:

biopolymers - adding to PLA already in use, made from cornstarch and headed for the automotive industry; *nanocomposites* – fillers added to PPS, PEEK and LCP's; *polymerizing in-line with extrusion* – producing sheet, film and pipe by converting raw monomers and catalysts into finished products using reactive extrusion...thus abating continuously rising polymer prices.

Industries expected to show most growth through 2007 are: mining equipment; oil and gas field machinery; computer equipment and communications equipment – based on industry forecasts.

Of course all forecasts must factor in the trends in energy prices— a good summary of the energy outlook is available at: www.kiplingerforecasts.com ... their 12/16/05 report *Energy Outlook*.

China's consumption of engineering plastics in 2005 was 4 million tons – expected to exceed 7 million tons by 2010. Since current production in China is only 1.25 million tons, imports will soar in the next five years, led by PC, acetal, PPO and ABS. Chinaplas 2006 will be held April 26-29 in Shanghai and the show is beginning to rival the globe's largest – K Fair in Germany.

PRICING: As the U.S. Gulf petrochemical complex resumes a more normal production schedule following the disruptions brought on by hurricanes last September, prices have backed down slightly on most commodity resins. PE, PP and PS have backed down slightly with single digit per pound decreases. However, we expect the resumption of single digit price increases in 1Q 2006, driven by oil and gas price levels rising due to supply disruptions and winter heating demand. Buyers of resin have held back anticipating further reductions which may not occur, but nevertheless demand is down accordingly. In the shapes sector we should still see price increases in most sheet products and in rod and plate engineering plastics. HPM's will have constant upward price pressure driven by demand throughout 2006, and thus continue single digit hikes.

Publishers note: Due to increasing costs of trees, paper, ink, postage, electrons and bytes, effective Jan. 1, 2006, the subscription price of THE GLOBAL PLASTICS LETTER will be going up to: US\$195/year (12 issues) for postal subscriptions and US\$175/year for electronic subscriptions. IAPD members will receive 6 issues free (an almost \$100 value).

This is the first increase in the 6 1/2 years we have been publishing and honors our commitment to guarantee prices for 5 years, including charter subscribers. This new rate will be guaranteed for 5 years as well. We appreciate your loyalty and understanding.

OUTLOOK EUROPE: filed by John Douglas, Special European Correspondent

The heady days of growth have stopped in Germany and a coalition government is in place and 12 percent of the work force is unemployed. France is stagnant and Italy has zero growth. The markets of Belgium and Holland have never been large but they also are flat. The UK is reasonably strong but it is due to the white collar market, as its manufacturing base is slowly sliding away. The future for plastics stock shapes is not that great hence we have seen the arrival of European distribution and manufacturing groups entering the North American marketplace.

When Cadillac, in 1968, formed its JV with Rohm=Haas GmbH (later to become Rohm GmbH), Rohm would sell to the end user as well as the fabricator and the fabricators would service the small user market in their area. Cadillac was charged with doing the small order business and this was a win and win for Rohm. The other producers in Germany were also selling to the end user market and the few distributors that still existed. The arrival of the full service distribution group dedicated to only plastics never took off, except for Cadco, as they tended to be metal distributors who became plastics distributors but with no real commitment.

The market has not changed much throughout Europe in the intervening years. The market in the UK was dominated in the past by distributors as they, unlike Germany, Italy, Austria, France and Spain did not have a manufacturing base for products - Perspex cast PMMA sheet and Polypenco engineering materials being the exception. ICI and Polymer concentrated on the domestic market with good success.

...to be continued in the Feb. 2006 issue

MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES:

Lehigh Valley Plastics, as announced last month, was acquired by an investor group, has US\$20 million in sales, 110 employees and over 1000 customers. The new management has experience in composite injection molding and materials – Lehigh is heavily involved with fabrication and machining at 4 plants in Allentown, PA.

Speculation abounds that Modern Plastics, Bridgeport CT is in talks with Blackfriars who now owns Laird, Port, Amari and Calsak distribution.

Degussa forms JV with Forhouse to manufacture PMMA in Taiwan to extrude optical grade acrylic sheet first targeted at flat panel displays.

Tyco International sells all its plastics businesses to an investor group – primarily PE construction film and packaging businesses which had 2005 sales of US\$1.7 billion.

DuPont Engineering Polymers selects Singapore as site for its new Zytel HTN® and Vespel® product lines – said to be among its highest growth businesses.

PEOPLE: New promotions to start the year: Dr. Manfred Spindler, Manager, Degussa Specialty Materials (MMA). Renato Patti, Manager, Quinn Plastics, Italy, Greece and Turkey.

Mike Oliveto from Technical Director, Quadrant EPP to North East Sales Manager.

INDUSTRY INTERVIEWS: Donald Dunn, Founder and CEO, Plaskolite Incorporated, Columbus, Ohio.
We interviewed Donald by email from his office in Columbus.

Q. Tell us about the history of Plaskolite? When and where founded? First products?

A. From 1943 to 1945 I was a “dog face” in the Tenth Mountain Division, U.S. Army. During World War II I was wounded in Italy. Afterwards I returned to college under the GI Bill of Rights. I do recall that during the long days and nights of training and combat (three years) I had a vision of some day having my own business. In 1950 reality happened when we started Plaskolite. Our first products were two-colored drinking straws. Incidentally in that same year Dick Hawes, III started KSH in St. Louis, and John Carroll started J.W. Carroll in California. For many years their companies and Plaskolite were the leaders in acrylic extrusions for fluorescent lighting fixtures and for smooth acrylic sheet for hardware stores and home improvement centers. The remnants of J.W. Carroll are now owned by Plaskolite, and KSH has been owned by three different groups, at present under the name Lucite International, headquartered in Great Britain.

Q. What does Plaskolite look like today? Where are your plants, warehouses? What are your key products?

A. Home office is Columbus, Ohio, where we polymerize methyl methacrylate and extrude it into a variety of products, mostly acrylic sheet called Optix. Also in Columbus we apply special coatings to plastic sheeting and do various fabrications. In 2000, Plaskolite expanded by building a plant in Zanesville, Ohio (60 miles east of Columbus) where we polymerize MMA through a state-of-the-art continuous technology in which the liquid becomes a sheet and/or polymer in one pass. Plaskolite believes that in the future the actual growth of acrylic sheeting will require a higher quality product for the newer, higher technology products, i.e. electronics, automotive, computers, TV's. We believe that this investment will “raise the bar” for quality acrylic sheeting, creating more real value for our distributors.

Q. What was behind the strategy to become the leading producer of plastic mirror when you were primarily a manufacturer of the substrate only?

A. Plaskolite has always been looking for ways to strengthen distributors in their markets. For many years we strove to meet the standards needed to manufacture a mirror sheet. Once our product met quality requirements we started selling Gordon Noakes of Mir-Acryl. After supplying Gordon and developing a relationship, we negotiated with him and purchased his company. Thereafter we acquired other mirror companies, and since then have become the only producer of mirrors which produces its own substrate. The advantage is obvious.

Q. When did you become basic in resin for your sheet products? What was behind the decision to integrate backwards?

A. In the 50's and 60's one of our two competitors was the J. W. Carroll Company, and in 1969 it started producing PMMA using the bag process. Rather than having to purchase acrylic polymer from either Rohm & Haas or DuPont (they were the only choices), Carroll could produce its own polymer. This gave them a big cost advantage, while KSH and we were left behind. But within five years Plaskolite caught up with its own polymer operation. In another five years, KSH built a plant in Mississippi. It then sold its business to ICI. Incidentally, this sale to ICI was at about the same time that ICI acquired DuPont's acrylic business. DuPont had been our supplier of monomer.

... to be continued in the Feb. 2006 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.

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Fax Number: 248/258-0851
E-mail: mettenson@globalplasticsletter.com
Website: www.globalplasticsletter.com