



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

NOVEMBER 2003

Dear Colleague:

Optimistic October! – followed a Solemn September. The critical (historically for our industry) months of September and October are in the record books – and results are just now reaching us. It appears that 3Q 2003 showed signs of the beginning of the long-awaited recovery, however not yet exceeding 3Q 2000. Bullishness about economic growth prospects is spreading, though not all businesses are seeing profits increase just yet. That’s typical in an acceleration phase...growth isn’t evenly spread. Even manufacturing is gaining strength, sparked by an uptick in new orders during September, when manufacturing output rose 0.7%. That bodes well for hiring, and with inflation low, we appear to be heading into an ideal phase when companies will be able to count on continued low interest rates to help to finance a pickup in investment in 2004.

A mixed outlook for energy prices between now and 2Q 2004 – heating oil, natural gas and propane will trend higher. Gasoline and diesel fuel will drop due to lower crude oil prices, which will go from \$30/barrel now to \$22-25 by early spring. Looking further ahead - long term interest rates could go higher in early 2005, and with a weaker dollar fueling inflation coupled with costlier financing of new longer term business investments. Timeliness of investments will be key.

Wholesale inventories fell 0.2% in August, further adding to the pressure for business spending to erupt to levels not seen for almost four years. In demand now are new industrial and transportation equipment aimed at increasing plant outputs in anticipation of higher sales ahead. Sales of non-durable goods increased 1.5% in August as well, with wholesalers adding almost 1/2 percent. With orders for durable goods up 1% in September, the fourth increase in five months, all the vital signs point to a strong 2004.

TRENDS: World Plastic Pipe demand is forecast to reach 6.3 billion meters in 2007 (according to a report just released by Fredonia Group), which represents a 4% year over year growth. China will record some of the highest rates of increase - PVC, followed by HDPE will be the leading resins used globally.

Speaking of China, it is expected to soon surpass the US as the largest consumer of PP globally. Five years ago, China consumed only 60% as much PP resin as the US, but that has gone up to 95%. Anticipated growth in usage will place them at 120% by 2007 and yet there will be a shortfall in its domestic production, causing continued imports. SINOPEC is its largest producer and is second in the world. Also driving PP resin growth, especially in India, is the increasing use of PP sheet in thermoforming due to PP's benefits in balancing price versus performance and properties. When the growing proliferation of PP (and HDPE) used in Dutch Boy paint and Folger coffee cans, replacing metal, is factored in – these are continuing great growth materials for the 21st century.

New inventory-tracking chips will become commonplace in our industry by 2010. The US Defense Department (and Wal-Mart...almost as big) will be joined by others next year in telling suppliers and shippers to adopt Radio Frequency Identification Devices (RFID's) on pallets, crates and cartons. The tiny chips, which will cost less than 5 cents by 2005, allow inventory to be tracked without the use of scanners, unlike bar codes.

The number of US wholesale industrial distribution companies shrank by 7% from 2002-2003, according to Industrial Market Information Inc. While MRO sales were down by 8.2% in the same period, the total number of distribution companies is up 10% from 1992-2003, with 90% having fewer than 20 employees – unchanged since 1992. For the complete report, most importantly including SIC codes 5000-5199, contact www.mdm.com.

Want to forecast interest rates?...in order to time new investments? A new technique being advocated by economists is to look at futures contracts on Eurodollars – more specifically, dollar-denominated CD's traded in London – because those contracts are by far the most actively traded interest-rate product. (go to www.cme.com for futures quotes). Complete details on this technique are spelled out in *The Strategic Bond Investor* (McGraw-Hill).

To mark the 50th birthday of PC, a book on the history of polycarbonate entitled *Thinking the Unthinkable: a plastic that changed our lives*, has been published by Dr. Gupta Verlag, Ratingen, Germany, www.gak.de or from Bayer Polymers – email: frank.rothbart@bayerpolymers.com

In addition to the history, the book deals with trends in PC markets and applications, now and in the future – worth a look!

IRANPLAST 2003, scheduled for Dec 10-14, 2003 and to be held in Teheran, has signed up 107 exhibitors for Semi Finished and Finished Plastic Products. With Iran's supply of natural gas, this is a fast-growing influential market.

PRICING: Shortly after early September, most producers attempted price increases and most were successful, especially in PP and PE, followed by PVC and PS although there has been some backing off in the latter two resins, due to intermittent demand. In the HPM sector, an explosion at GE's Ultem PEI plant in October, caused some interruption in supply that could lead to an increase in that material as well as others in the group.

An interesting new development that could smooth out the effects of volatile markets for PP and LLDPE, comes from the London Metal Exchange. They announced their interest in the inauguration of futures contracts in these two bellwether resins, that could launch next year and would allow producers and consumers to "hedge" their transactions and act as a transparent price discovery mechanism. Will other resins be far behind?

DISTRIBUTOR/MANUFACTURER BRIEFS: Piedmont Plastics announces several expansions, with the acquisition of the assets of Clarity Plus, in Grand Rapids, Michigan which was turned into a Piedmont Branch. Another new branch location opened in Akron, Ohio.

Ticona boosts UHMW production in Germany, sold under the GUR brand, bringing its capacity to 40,000 metric tonnes in Europe and 30,000 in the US – it expects annual growth to be 5% Reifenhauser, the German builder of acrylic sheet continuous extruders, is building a plant in Suzhou, China, expected to be in production in April 2004 – can high quality extruded sheet from China be far behind?

DuPont Teijin Films US LP is planning to shut down a polyester film extrusion line in Florence SC (US) – that line produced 14 million pounds annually – soft markets are given as reasons for this move; production to be covered at other plants.

Speaking of films, Ajedium Film Group LLC is new producer of ultra-thin high performance films. See them at: www.ajedium.com.

DuPont Hongji to build 17,000 metric ton/year polyester film line in China – start up to be in 4Q 2004.

Master Bond Inc has brought its X17MED to market – one part elastomeric polyolefin-based adhesive to bond PE and PP; cures at room temperature. For more info: www.masterbond.com

Spartech Corp. filed with US regulators to sell up to 6 million shares of common stock, primarily to be used to finance acquisitions according to the company. (see details on their latest acquisition further on in this page ... will GEPS be on their screen?)

BASE will idle a major portion of its acrylic monomer capacity in Freeport, Texas in response to weak economic conditions – 150 million pounds of acrylic acid capacity closed temporarily.

Chevron Phillips announces two new grades of PPS, named Xtel, that are extrudable.

MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES AND EXPANSIONS:

Spartech buys the sheet extrusion unit of Wilbert's TriEnda division, based in Portage, Wisconsin (US) – purchase price said to be \$5.5 million.

Alcan Composites completes its buyout of the Uniwood/Foam-Cor division of Nevamar, and will operate as the Alcan Gator Cor entity. This gives Alcan the leading brand names of graphic arts board stock, (for more details, see Industry Interviews further on in this newsletter) such as Fome-Cor; Gatorfoam; Sintra; DiBond and Foam-X.

Paperlinx of Australia purchases UK distributor, William Cox, formerly owned by Robert Horne.

WW Grainger set to expand with an aggressive addition of branches in 25 major US markets – beginning with Seattle, Atlanta and Denver. Also scheduled is the addition and/or expansion in 12 secondary markets, all planned in 2004.

Penda Extruders launches custom thermoforming unit, to be named Penda Premier Plastics, at its Wisconsin plant.

PW Eagle spins off PE Pipe extrusion business, in order to concentrate on PVC pipe.

PEOPLE: Ramsey Griffin, formerly of Laird, Universal and Poly-Hi, named President of Thermoplastic Processes, recently acquired from its previous owners.

Piedmont Plastics appoints managers at its new branches; Elek Lukes, Akron, Ohio and Jeff Kozacki, Grand Rapids, Michigan.

Chris Mattern promoted to Manager of Marketing for St. Gobain Performance Plastics' Critical Process Markets.

INDUSTRY INTERVIEWS: Jim McCormick, Senior Group Vice President, Sales at Alcan Composites USA Inc. Jim has a Bachelor's degree in Chemistry and an MBA from St. Louis University and joined Alcan in 1988 after stints in the sugar manufacturing, plastics display manufacturing, and architectural industrial coatings industries. He resides in St. Louis and is the father of 5 children. We interviewed him by phone and email at his office in suburban St. Louis.

Q. What is the significance of your recent acquisition of the Fome-Core business of Nevamar?

A. The acquisition gives us the leading products and brand names in four key North American Display/Graphic Arts segments; Alucobond and Dibond (Aluminum Composites), Sintra (free foamed PVC), Gatorfoam (High Performance Foamboards), and the family of Fome-Cor/Foam-X (Paper Faced Foamboards). (We also offer the number one global polyurethane High Performance Foamboard, with the Kapa Product line.) This product offering is an important aspect of our global strategy, which is to offer the market the right substrate for the specific application, at the right price, through the best distribution outlets. Our channel partners can now deal with one supplier, and we can provide the optimum total offer to our partners in all areas.

Q. How will this affect existing distributors of yours and theirs?

A. We already share many of the same channel partners. In addition, there will be no short-term changes in the channel. As we move forward, it is our goal that the channel partners of Alcan Composites will carry our complete product line offering, but getting there will take some time. Bottom line, we see no need for distribution to carry competitive materials from up to 5 other suppliers, when our offering provides the market with all of the needed features and benefits, from one supplier. Simply put, our goal is to be THE Supplier with the most attractive total offering, in terms of products and services, partnering with the best distribution companies active in the Display and Graphic Arts markets.

Q. How does Alcan Composites rank in the plastic board business?

A. We believe that we are in a totally unique position in four distinct product categories, Aluminum Composites, Free Foamed PVC, High Performance Foamboards, and Paper Faced Foamboards, and are the leader in overall non see-through substrate sales, both in North America, and Europe.

Q. What, if any new products will you introduce in the near future?

A. We have introduced several new products in the last 2-3 years, and these already represent 5% of our sales. These include SintraTop, SintraFix, Dibond Butler Finish, Foam-X PS, Gatorfoam bright white, JetPrint, Jet Mount, 5 foot wide and 2 Meter wide product. We expect to continue to be a leader in innovation and new product development, accelerating the process further as we benchmark internal technologies, evaluate new processes and manufacturing capabilities and combine compatible technologies in new and unique ways.

Q. What will the growth markets be for your products in the balance of this decade?

A. The Display and Graphic Arts market grew in excess of 10% per year in the 1990's, but has been relatively flat for the last 3 years. We strongly believe in this market, and the market fundamentals remain strong; hence the acquisition and expansion of our product offering. We look for growth to return to 5-10% over the next 3-5 years. Market fundamentals include a strengthening retail market, shortening display product life cycles, high substitution rates for composites over traditional materials like wood, acrylic and styrene, emerging technologies such as direct to substrate digital printing, and the ongoing demand for lighter weight, yet rigid substrates.

... to be continued in the December 2003 Global Plastics Letter

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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