



RESINS

CURRENT TRENDS

- Winter Storm Uri hit the Gulf Coast in the first quarter of 2021, causing widespread utility and raw material supply disruptions and industry-wide production outages.
- Most plastics production facilities resumed operations by the end of March 2021. However, the storm and subsequent hurricane season resulted in tight supply dynamics and generated pricing momentum for raw materials and finished goods.
- Following a pandemic-driven 14.6% decline in 2020, industry revenue is forecast to expand at an annualized rate of 2.6% through 2026, driven by strong housing and export markets.
- Despite a positive demand outlook, the industry faces headwinds related to environmental concerns, including global warming and volatility in the petroleum industry.

PROJECTED VALUES (12-MONTH OUTLOOK)



APPROXIMATE NET RECOVERY ON COST

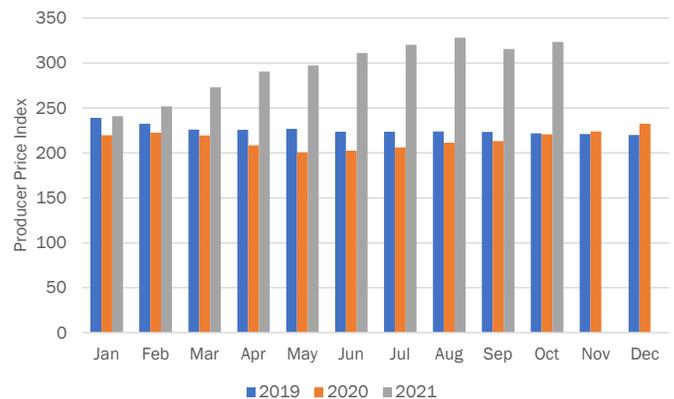
55%-75%

resin

20%-75%

regrind

PRODUCER PRICE INDEX PLASTIC RESINS AND MATERIALS



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Gordon Brothers

GORDONBROTHERS.COM
+1.617.426.3233

CURRENT INDUSTRY CONDITIONS: Since 2001, the Gulf Coast has seen tremendous growth in the number of petrochemical plants, which has helped the U.S. become one of the largest exporters of plastics and other petrochemical products. Relatively steady growth in consumer spending and industrial demand for plastics and resins drove growth of approximately 0.6% on an annualized basis from 2016 through 2021, according to industry research firm IBISWorld. Despite positive volume demand trends, revenues were curbed over the period by lower petrochemical prices, which in turn resulted in lower resin prices.

PANDEMIC EFFECT: The COVID-19 pandemic initially negatively affected the resin market and demand from the consumer and industrial markets, suppressing demand in China in February 2020 and throughout the rest of the world by March. In the early stages of the pandemic, there was a rapid and strong resurgence in consumer demand for resins, such as those used in packaging and hygiene products.

However, there was a more protracted and stubborn fall-off in industrial demand for resins, including those used in automotive manufacturing, construction and other types of industrial applications. Additionally, as the base price of petrochemicals dropped to historic lows in May 2020, the price of resins dropped as well. These prices are often contractually linked to petrochemical-related feedstock prices, and their drop resulted in a 14.6% decrease in 2020 industry revenues, according to IBISWorld.

WEATHER EFFECT: Despite the pandemic's negative effects on the sector, rapid economic recovery in the second half of 2020 and throughout 2021 increased demand for plastic and resin products. Industrial production reached pre-pandemic levels with the recovery of automotive production in the fall of 2020 and positive trends in the housing market and other sectors of the economy. Production peaked in January 2021 at a rate 11.5% higher than February 2020, according to the Federal Reserve Board.

The rebound was short-lived as production collapsed following an unusually severe winter storm that hit Texas in mid-February 2021. The storm, referred to as Winter Storm Uri, caused low temperatures that affected the petrochemical industry throughout Texas, freezing wells, pipelines, petrochemical refineries and production plants. The weather brought on force majeure conditions at many plants and halted production of several key feedstocks of plastics, including polyethylene and chlorine.

These conditions immediately disrupted plastic and resin production, which dropped by over 25% in February 2021 and did not fully recover until April. Additionally, general supply chain issues have affected the sector, with logistics problems restricting exports and rail and trucking backlogs affecting domestic delivery times.

As a result, supply concerns drove up plastics prices. By the end of March 2021, polypropylene spot market prices had increased to \$1.45 to \$1.50

per pound from mid-January rates of \$0.90 to \$0.95 per pound. By early April, the spot price of most polyethylene resin grades had more than doubled, reaching as much as \$1.10 per pound.

The prices for plastic resin have remained comparatively high through November 2021, according to the U.S. Bureau of Labor Statistics. The producer price index for all grades of plastic resins and materials have surpassed 2020 levels by over 50% despite weakness in the automotive sector, primarily caused by worldwide microchip production issues.

The 2021 hurricane season severely affected Texas and Louisiana. Hurricane Ida knocked approximately 60% of U.S. polyvinyl chloride production offline, and Hurricane Nicholas knocked approximately 85% of the U.S. polyethylene capacity offline, according to data provider Independent Commodity Intelligence Services. While production was back online by November 2021, the supply chain was again temporarily severely affected. According to Jason Keiswetter, president of Petoskey Plastics, raw material costs increased 150% from summer to fall 2021. Suppliers who had announced price increases before the Texas freeze have issued more in its aftermath. "My family has been doing it for 50 years," he said. "We've never seen raw materials spike like this."

In the aftermath of the hurricanes, plastics prices have eased slightly, but manufacturers continue to report higher prices and short supplies of resin-related products, according to the Institute for Supply Management's October 2021 Manufacturing Report on Business. The material became more expensive after a tax on imported resins was reinstated in 2020. Joe Doss, president and CEO of the International Bottled Water Association noted that duties on PET from China are now set at \$1.80 for each \$1.00 of imported goods. Commodity-grade resin supply has improved recently, and spot prices for polyethylene and polypropylene, two of the most used resins, have slowly been declining since the late summer, according to The Plastics Exchange, a marketplace for buying and selling commodity grade resins.

INDUSTRY OUTLOOK: A strengthening U.S. dollar and tariff challenges have hindered export growth since 2016. Nevertheless, exports remain the single largest marketplace for plastic and resin products, accounting for 38.2% of U.S. industry revenue. Spurred in large part by the production and sale of ethylene because of the U.S. shale boom, exports are forecast to increase at an annualized rate of 4.2% through 2025, according to IBISWorld.

The Dow Chemical Company's (Dow's) recent results seem to support a positive outlook, at least in the short term. Dow reported net sales of \$14.8 billion in the third quarter of 2021, up 53% from \$9.7 billion in the third quarter of 2020 and up 7% from \$13.9 billion in the second quarter of 2021, with increases generated across all operating segments and geographic regions.

Despite the positive outlook, IBISWorld notes industry growth could be constrained by the slowdown in Asian economic growth and increasing regulations related to environmental concerns, including carbon limits, global warming and weather impacts. Financial think tank Carbon Tracker's 2020 report titled "The Future's not in Plastics," suggests opportunity for industry revenue growth may be hindered by the decline in petroleum feedstock prices and industry profitability. Additionally, the report notes the pressure to limit the use of plastics because of environmental concerns as another key factor negatively affecting the industry going forward.

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The Expert: Alex Sutton



Alex Sutton is Managing Director and Head of Research for Gordon Brothers' Valuation division where he coordinates industry guidance and market research to support cross-asset appraisals. With over two decades of experience, Alex has directed inventory appraisals across a range of industries, including aerospace, agriculture, metals, pharmaceuticals, and plastics. Read his full bio [here](#).



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