

Commodities / packaging

Rising packaging prices highlight supply chain inflationary pressures

- Paper, metals and plastic prices on the rise.
- Higher packaging costs could spill over into consumer price inflation.

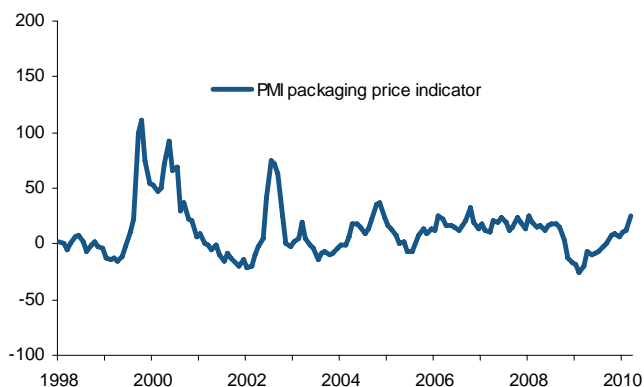
Packaging prices have risen throughout the first quarter of 2010, according to purchasing managers surveyed by Markit, growing at the fastest pace for almost three-and-a-half years in March. The increase in prices reflects a rise in packaging producers' raw material costs, alongside stronger demand for packaging items as the global manufacturing sector recovers.

Packaging prices are important due to the widespread use in manufacturing and retail. The food & drink sector is particularly exposed, as it is estimated to account for more than half of global packaging use¹.

The PMI packaging price indicator – which reflects the proportion of companies across Markit's worldwide survey panels that report a specific commodity to have changed in price – rose in March to its highest level since October 2006 (though remains well below previous peaks seen in 1999/2000 and 2001).

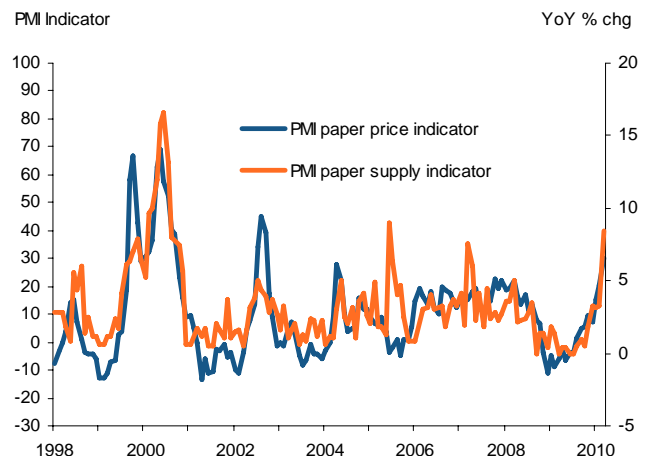
PMI packaging price indicator

PMI Indicator



A number of factors have acted to push up packaging costs recently. Paper – which accounts for over one-third of all packaging materials across the world – has been hit by a surge in pulp prices, which have climbed to a 15-year high amid supply disruptions following February's earthquake in Chile, an important global producer.

PMI paper price and supply indicators

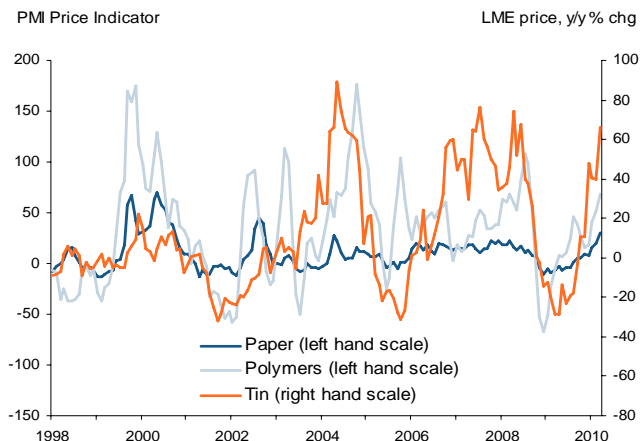


The Financial Times reported last week that European benchmark pulp hit \$918 a tonne in mid-April. That is 60 per cent higher than its trough a year ago, and closing in on the all-time record of \$1,000 set in 1995.

Meanwhile, the costs of producing plastics and glass have been driven higher by rising oil and energy costs, while a number of metals widely used in packaging, such as tin, have recorded strong price gains in recent months. On the London Metals Exchange (LME), tin traded at an average price of \$18,355 per tonne in March, the highest since August 2008.

¹ According to market analysis by SPG Media Group

Common packaging inputs



Manufacturers are likely to absorb many of these cost increases by reducing their profit margins in the short-term as competitive pressures remain strong. However, firms will be hoping that a sustained improvement in demand conditions will boost their pricing power and allow them to pass on a greater proportion of their increased costs to customers. Given the pervasive use of packaging in the retailing of consumer goods, this would spell upward pressure on consumer price inflation around the globe.

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