2018 A Mixed Year for Rubber Firms

More than 80 percent of rubber product manufacturers faced an increase in raw materials pricing in 2018, more than double that did in 2017, according to the Association for Rubber Products Manufacturers.

The industry is facing "a strong headwind right now" in terms of pricing for raw materials, Executive Director Troy Nix said in a webinar discussing the report.

Fourth quarter performance showed a little bit of mixed returns for business momentum, Nix said.

"Some of the economic indicators kind of contradict each other," he said. "I'm not alarmed by anything, but on the other hand, I'm not jumping out of my seat for joy relative to where we are as an industry. It's more of a wait and see."

According to the report, 41 percent of respondents saw an increase in their sales in 2018's fourth quarter, compared to its third quarter. More respondents saw a decrease at 31 percent than reported remaining the same at 27 percent.

"It's obviously a good thing, anytime you see more increases than decreases when we're comparing sales," Nix said.

Digging deeper into the data, 57 percent of the respondents serving the aerospace industry reported a strong fourth quarter, Nix said. Another 37 percent of those working in the automotive industry saw a bump in Q4 sales.

Looking back farther in Q4 versus Q3 sales, 2017 had the highest percent increase in the last four years, with 54 percent reporting increases in sales compared to 19 showing decreases. In 2016, 42 posted increases with 26 percent down, and in 2015 29 percent increased sales compared to 38 percent with declines.

"When you put this in historic context, we're losing about 13 points, so I think that's interesting," Nix said.

The cause of increased sales in 2018 Q4 was a new program or volume increase with current customers for 29 percent of respondents, down from 38 percent of respondents in 2017. New customers made up 11 percent of increased Q4 sales, also down from 17 percent last year. New orders with existing projects were 9 percent, compared to 14 percent last year.

Shipments were up in the fourth quarter of 2018, compared to the third, with 48 percent of respondents seeing increases, compared to 23 percent with decreases and 29 percent remaining the same. Compared to the same period in 2017, 57 percent had reported increased shipments, with 12 percent showing a decrease and 31 percent showing no change. Again, 2017 saw the greatest increase in the category since 2015.
"When I examine performance relative to shipment ... if I look at the Q4 versus Q3 of 2018, the data point looks pretty good," Nix said. "When I take a look at what’s happened in the last four years, obviously 2017 was pretty strong. Then, when I go back to '15, '16, when I compare those too, we've come a long way."

Backlog from the third quarter to the fourth in 2018 has remained the same for 43 percent of respondents, up from 31 percent for the same period in 2017. It increased for 30 percent in 2018, down from 51 percent in 2017, and it decreased for 26 percent, up from 16 percent in the prior year.

"If you go back 12 months when we looked at this question ... it showed that backlog was actually increasing," Nix said. "Backlog going into this year is not as solid as we'd like to see it. There's a 10 percent jump in those seeing a decreased backlog and a 21 percent drop in those seeing an increased backlog."

Looking at the production workweek tells a different story, Nix said. As other economic indicators start to go in a negative direction, workweeks have increased on trend since 2015. The Q4 production workweek in 2018 increased for 52 percent of respondents, compared to 43 percent in the same period for 2017. Both of those points are higher than those showing an increase in 2016 at 27 percent, and in 2015 at 18 percent.

The Q4 production workweek remained about the same for 33 percent in 2018, down from 46 percent in 2017. Again, both of those numbers are lower than earlier responses of 54 percent in both 2015 and 2016. The workweek decreased for 14 percent in 2018, up from 10 percent in 2017.

"Maybe the reason that backlog went down was because we had to grow expansion of our workweek to meet customer demand," Nix said. "So this is a good thing."

Nix found that smaller companies of less than $5 million in annual sales were more likely to say that the production workweek remained the same. Companies of $15 million and more "basically were adding more production hours to your work schedule," he said.

Quoting activity in Q4 2018 increased for 44 percent of respondents, down from 48 percent for the same time period in 2017. Almost the same amount, 43 percent, remained the same in 2018, up from 32 percent in 2017, and 13 percent saw a decrease in Q4, down from 20 percent in 2017.

For increasing quote activity, the trend line going backward is more level, with 42 percent increased in 2016, up from 25 percent in 2015.

Raw materials
Source: Association of Rubber Products Manufacturers
For Q4 raw materials prices, 82 percent of respondents saw an increase, compared to 40 percent for the same period in 2017. Going farther back, 21 percent saw increases in 2016, along with 5 percent in 2015.
"I just took a step back and said 'Wow.' Talk about a leap here," said Nix. "I don't know what to say other than this is a serious headwind going into profitability. A 42-point jump, if you look 12 months ago."

For 2018, 15 percent said prices remained about the same, compared to 58 percent in 2017. No respondents in either 2018 or 2017 reported a decrease in pricing for raw materials for the period.

A total of 31 percent of respondents seeing raw material price increases passed the entire increase on to the customer. Another 22 percent passed between 50 and 99 percent of the price increases on, and no respondents passed on 30 to 49 percent. A total of 28 percent sent 1 to 29 percent of rate increases through, while 20 percent absorbed the price increases fully. "It's one thing to experience an increase, but what bothers me the most—we have organizations that actually are able to pass off all the increases. But we also have one-in-five of you who suck those raw material increases down and try to cover them with improvements in your own organization," Nix said. "Sooner or later, if we continue to take these increases and not pass them along to the customer for one reason or another, that doesn't bode well for business."

Profitability for Q4 2018 compared to Q3 showed 25 percent of businesses with an increase for the period, down from 44 percent in 2017. That's also under 2016's total of 31 percent, and about the same as 2015's 24 percent.

A total of 36 percent saw decreased profitability in the quarter, up from 18 percent last year, and 39 percent remained the same for the period, almost the same as last year's 38 percent.

Sales trends and market optimism
Comparing current sales to last year's, 75 percent of respondents said sales have increased, 18 percent said they remained the same, and 7 percent reported a decrease.

"If you plot these on our historic last four years to give you a better context, we've strung a couple of very good years together," Nix said.

The industry as a whole has been slowly expanding in the last four years, Nix said, meaning being in a position where sales have remained the same isn't a bad position.

For anticipated sales going into the first quarter of 2019, 57 percent of businesses expect an increase over the previous year's sales. This is down from 72 percent expecting an increase from 2017 going into 2018. A total of 33 percent expect sales to remain about the same for 2019, up from 25 percent in last year's report. A total of 10 percent expect a decrease in sales for Q1, also on the rise from 3 percent last year.

"It's below first quarter of 2017, but it's not terrible," Nix said, adding that 90 percent still expect increasing or similar sales levels.

Taking those anticipated sales out for the next 12 months, 76 percent of respondents expect 2019 sales to increase, compared to 81 percent in 2018. In 2016, 77 percent predicted
increased sales along with 57 percent in 2015. A total of 14 percent of respondents in 2019 expect sales to remain about the same, and 10 percent expect sales to decrease.

Looking toward which individual markets are driving the optimism for those anticipated sales, 16 percent of respondents saw automotive as the most optimistic market coming into 2019. Defense, construction and energy tied for second place at 11 percent each, and medical, aerospace, agriculture and consumer goods took in 7 percent each in third.

Automotive also tops the chart of the least optimistic markets for 2019 at 24 percent, with government taking second at 13 percent and agriculture pulling third at 10 percent. Construction comes next with 9 percent, then energy at 8 percent, and environmental and mining at 5 percent each.

Nix said some of those top choices in the least optimistic markets overlap with sister industries in plastic and mold building. That’s especially interesting as light vehicle sales are expected to be under 17 million for the first time in several years. Another angle is that autonomous and electric vehicles are beginning to take a sliver of the market from gasoline powered vehicles.

"You might not be optimistic about automotive because of who you're supplying," Nix said. "If you’re supplying GM right now, you’re probably not really happy about where things are going. But there are some other automotive companies that are doing OK."

Businesses relocated more work back to the U.S. in 2018, with 37 percent bringing work back stateside, compared to 30 percent in 2017. Another 31 percent were not actively looking for off-shore suppliers in 2018, and 22 percent were moderately looking. Last year, 9 percent were aggressively looking for off-shore suppliers.

"This is a great trend coming back our way," Nix said. "If you look today at what's going on in industry segments, when we look at plastics and rubber and reshoring initiatives, it's very, very good for U.S. manufacturing."

The majority of respondents—55 percent—neither gained nor lost business to foreign suppliers in 2018. Another 26 percent gained business, 14 percent lost business and 4 percent lost business to customers relocating outside the U.S.

Current company profits were rated as "acceptable" for 66 percent of respondents, weak by 19 percent and great by another 15 percent.

In terms of production tooling, 80 percent of respondents purchase domestically, while 11 percent purchase from overseas and 9 percent are investigating the tactic. It’s better when companies are able to purchase domestically, but "we also understand that as an industry association, sometimes you've got to do what you've got to do in order to get the best pricing possible," Nix said.

Compared to last year’s report, purchasing domestic production tooling is up from 70 percent, while overseas purchasing is down from 24 percent. A 10-point jump in domestic production
tooling purchases is a significant bump, possibly a result of tariffs put in place last year, Nix said.

**Capital expenditures**
Investing in business will increase in 2019 for 55 percent of respondents, down from 60 percent in 2018 and 67 percent in 2017. Another 32 percent expect capital expenditures to remain about the same, and 14 percent expect them to decrease in the upcoming year.

The majority of that capital will be used on equipment repairs and upkeep for 31 percent of respondents, with primary machines coming in second at 23 percent. Automation is third with 16 percent, structural and technology improvements each have 13 percent, and auxiliary equipment takes 5 percent.

Work force development, including employee training and hiring, tops the list of challenges for 2019, with 98 percent of respondents listing it as the most important hurdle. Raw materials cost and availability at 45 percent and political environment/regulations at 29 percent round out the top three.

Compared to previous years, work force development has been on the rise as a concern, Nix said. In 2016, 30 percent of respondents listed it as a top concern. That total rose to 73 percent in 2017 and 86 percent in 2018.

"The interesting thing is that it's our sentiment, based on all the data we're receiving, that this isn't going away," Nix said.

Some ARPM members are engaging with local educators to invest in potential future workers for the manufacturing industry, and some are using apprenticeship programs, Nix said. Another approach is changing shifts to allow for shorter blocks of time at work to be more attractive to a new generation of employees.

Respondents ranked automation as the factor making the largest impact on the U.S. rubber products industry at 39 percent, with new technologies in market served at 24 percent, and material science and development at 22 percent. Industry 4.0 and the Internet of Things landed at 9 percent, and 7 percent named additive manufacturing and 3D printing.

Going into the new year, 23 percent of respondents list continuous improvement initiatives as their top plan to raise competitiveness in 2019. Automation came in at 19 percent and new equipment and capabilities at 17 percent.

"One in five of you are basically saying we have to find ways to automate," Nix said. "We know it's not easy."

The ARPM surveyed 83 industry executives, including presidents, owners and CEOs, general managers and staff managers for its report. Company sizes ranges included 14 percent under $5 million, 26 percent between $5 million-$14.9 million, 36 percent between $15 million-$49.9 million and 24 percent above $50 million.
Predominate manufacturing processes included 29 percent manufacturers of finished products other than molded, 24 percent injection molding, 20 percent compression and 15 percent extrusion.

Primary market segments included automotive at 56 percent, construction at 37 percent, agriculture at 32 percent, defense at 22 percent and energy at 21 percent.