



## ***Plastic Pipe Industry Grapples with High Costs Despite Sales Growth***

PPN Editor 13 March 2023

Major plastic pipe companies are reporting year-on-year growth in sales for 2022 amid continued cost pressure on margins and profitability.

European and US plastic pipe manufacturers faced "*logistical impairments and/or production downtimes in the upstream process chain.*"

Variable costs to produce and deliver plastic pipe products and rapid revenue growth is masking "*exorbitantly rising costs for raw materials, energy and logistics*", caused by external factors including the Ukraine war, material shortages and natural disasters.

According to a top executive at a major plastic pipe producer, companies were able to compensate for these "*diverse and significant*" cost increases through higher sales, but only to a limited extent.

In particular, he noted that the cost increases for raw materials in 2022 were "*consistently in the high double-digit percentage range.*"

For example, he explained that the average year-on-year price increase for some polymer resins was almost 70% and almost 65% for carbon black.

Price increase for most important polymers and chemicals, however, were relatively 'moderate' with average rises of between 15% and 50%.

Meanwhile, the cost of electricity more than doubled during 2022, as did the price of gas for polymer processing.

At the turn of the year, there were also challenges around cost increases linked to a weak Euro in relation to the US dollar, the industry analyst also pointed out.

Amid these pressures, most plastic pipe manufacturers saw an increase in sales.

The plastic pipe industry executive noted an improvement in the second half of 2022, which led to significant growth compared to the previous year.

Regarding the outlook for 2023, prospects remain *“uncertain”*. Key polymer index providers predict raw material prices less affected by volatile *“external factors”*, despite remaining uncertainty in the Ukraine. There is an expectation however that pricing will increase proportionately to production costs during the second half of 2023.

With estimated global sales in the billions, the plastic pipe industry is expected to report 2-5% growth in sales, though many production-side obstacles, such as *“very high costs”* remain in place.

*“In the first quarter, the industry's economy is very moderate and companies live from the order backlogs”*.

*“The biggest concern in the plastic pipe industry is currently Germany,”* he added, noting that the country's competitive position has deteriorated internationally. This applies to the competitive price situation as well as the high labour costs, adding that plastic pipe companies are also exposed to high corporation taxation due to the EU 'green deal'.

An industry economist concluded with a stark warning that, at this rate, German plastic pipe companies will not be able to deliver innovation and *“an exodus is imminent”*.

### *Plastic Pipe Manufacturers Navigate Volatile Costs and Uncertain Outlook in 2023*

For plastic pipe manufacturers, 2022 proved to be a challenging year as resin prices soared in the first half, energy prices started rising in the second half and shipping costs remained high due to major disruptions in global supply chains.

In some cases, the overall cost tripled, putting significant pressure on margins and profitability. While the latter half of the year saw some stabilization and normalization, the outlook for 2023 remains uncertain and unpredictable.

Despite the macro-economic headwinds and declining buyer confidence, most plastic pipe companies managed to grow revenue through increased pricing to compensate for higher input costs. However, the persistent worldwide uncertainty and disrupted supply chains continued to impact results, particularly in the fourth quarter, with softer demand and lingering effects of COVID-19 in some of the most important markets.

According to the plastic pipe industry expert, the key to weathering the ongoing pressure from cost inflation is through margin management and cost reduction programs. Looking back on 2022, the expert noted the importance of having these measures in place to mitigate the impact of volatile costs and disruptions in the supply chain.

As the new year begins, plastic pipe manufacturers remain cautiously optimistic but are bracing for potential challenges ahead. The uncertain outlook requires a nimble approach to managing costs, supply chain risks, and customer expectations. The companies that can adapt quickly and effectively to the changing market conditions are likely to come out stronger in the long run.

For plastic pipe manufacturers 2022 was a challenging year with significantly higher resin costs in the first half of the year. This was compounded by major disruptions and higher shipping costs. Resin prices and shipping costs came down and stabilized in the latter half of 2022 returning some normalcy to the market and this stability has continued into 2023, however the outlook remains uncertain and unpredictable.

Despite the macro-economic headwinds impacting volumes and results, a number of major plastic pipe companies did grow revenue in 2022 via increased pricing.

The plastic pipe industry player states *“Looking back on 2022, it was a year of persistent uncertainty as global events caused significant cost inflation, disrupted supply chains and prompted declining buyer confidence. Our results reflect softening demand but with our margin management and cost reduction programs firmly in place, we will mitigate the ongoing pressure from cost inflation. “*

PPN Editor