

Market Update and Forecast

North America - February 2022



OUR RESPONSE TO MARKET DYNAMICS

The adhesives industry is working hard to keep up with high demand in a market full of supply challenges, such as tightness in the labor market and logistical capacity shortages. Here are a few things H.B. Fuller is doing to serve our customers during this time:

- Investment in additional water-based adhesive and hot melt pellet capacity in North America.
- Recruiting campaigns with increased wages to ensure our manufacturing facilities can run 24/7.
- Hiring truck drivers and equipment that are dedicated to H.B. Fuller shipments.
- Investing in more efficient packaging processes on our manufacturing lines to increase output.
- Hiring new talent in our supply chain organization to help proactively manage day-to-day logistical challenges.

HIGH LEVEL MARKET SUMMARY

- High demand and tight supply are resulting in the highest inflation of raw material costs this industry has seen in living memory. Until supply exceeds demand, inflation is expected to continue. Most forecasts indicate that costs will continue to increase beyond Q2 2022.
- The U.S. economy expanded an annualized 6.9% on quarter in Q4 2021, much higher than 2.3% in Q3 and well above forecasts of 5.5%. It is the strongest GDP growth in five quarters.
- The growing global energy shortage, which could quickly become a crisis by winter, threatens to spike chemicals and polymers prices or, at the very least, keep them elevated through year end and into early 2022.
- The global container crisis has continued to disrupt chemical supply. Normal flows of products have been delayed or cancelled due to a lack of available capacity, and prices that have spiked to unsustainable levels.
- Demand for manufactured goods is still high and many retailers were already struggling to keep stock as COVID variants crest. Omicron's impact is aggravating labor shortages and slowing manufacturing output.



FEEDSTOCKS AND RAW MATERIALS: COST INCREASES CONTINUE

The adhesives industry continues to see significant increases in key feedstocks, raw materials, and packaging materials. In Table 1 on this page, you'll see that for many materials there are **incremental** increases happening **quarter after quarter**. Prices for packaging materials, such as corrugated, steel, and plastic resins, are also up considerable amounts and supply is volatile.

HIGHER RATES ACROSS LOGISTICAL MODES CONTINUE INTO 2022

Ocean:

- Global reliability schedule remains low. YoY level, schedule reliability down by 33.6%. Volumes expected to remain high until Chinese New Year.
- 58 cancelled sailings have been announced between weeks 52 and 03, out of a total of 545 scheduled sailings, representing 11% cancellation rate.
- Long lead times at L.A. and Long Beach ports expected to increase again, as a high percentage of new COVID variant cases are arising. On the U.S. west coast, approximately 2/3 of tested dockers came up positive, 80% in southern California.
- About 100 container ships are waiting for berths in Los Angeles/Long Beach ports as of Jan 2.

Air:

- Market demand continues to rise, and global capacity remains limited - 21% down compared to pre-pandemic levels.
- Rates to/from Asia Pacific, especially China, likely to remain high due to ongoing space constraints, new COVID variants and Winter Olympics.
- Rates expected to remain high into 2022 due to demand vs. capacity imbalance and upcoming peak season. Rates are 118% higher than 2019 baseline.

Table 1

Hot Melt	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022F	Q2 2022F
SBC	+8%	+14%	+15%	+11%	+6%	+8%
MPO	+0%	+14%	+14%	+11%	+0%	+16%
EVA	+2%	+15%	+2%	+9%	+10%	+6%
RESIN	+0%	+2%	+12%	+7%	+8%	+8%
OIL	+2%	+12%	+16%	+10%	+10%	+6%
WAX	+0%	+6%	+7%	+4%	+10%	+6%

Water-Based	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022F	Q2 2022F
VAM	+14%	+25%	+0%	+3%	+5%	+0%
ACRYLIC MONOMER	+12%	+28%	+4%	+13%	+1%	+10%
PVOH	+0%	+20%	+9%	+12%	+52%	+9%
ETHYLENE	+17%	+30%	+0%	+0%	+0%	+0%
BENZOATE	+2%	+11%	+4%	+7%	+7%	+3%

SPECIALTY	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022F	Q2 2022F
POLYETHER POLYOL	+12%	+53%	+32%	+14%	+0%	+0%
ISOCYANATE	+8%	+14%	+15%	+9%	+21%	+8%
POLYESTHER POLYOL	+0%	+10%	+9%	+1%	+11%	+6%
ETHYLACETATE (ETAC)	+3%	+17%	+4%	+10%	+20%	+10%

LOGISTICS CONTINUED...

Road:

- Current market has 6.5 available loads per one available truck, vs. pre-pandemic levels of two to one.
- Van rates currently have very low variation, however still ~20% higher vs. last year.

For more information, please contact your H.B. Fuller sales professional.



For more information about our company, visit www.hbfuller.com.

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