

# International Supply Chain **TRADE DATA**

by Kevin Palmstein

## Factors facing the supply side of the fastener industry in the U.S.

The world of trade has gone through significant changes in the last 24 months. Not only have companies endured a protracted recession in the United States and Europe, but the entire world has felt the reduction in demand from the world's legacy economies. While China and other Asian countries' GDPs continue to grow, the lack of a strong recovery in the West will continue to forestall worldwide growth. When analyzing the fastener industry, or any other market sector, one must take an expansive view of the entire supply chain and stakeholders.

The fastener industry is dependent on many other industries to be a healthy market sector. Demand-side considerations include the states of the housing market, the manufacturing sector, and companies producing durable goods. Supply-side factors are important in order to know and understand the final costs fastener companies can expect, including steel and copper prices, transportation costs, and shipping capacity. These industries need to be examined and understood to get a full picture of what will happen to the fastener industry in the next year.

In this article, we will examine the factors that face the supply side of the fastener industry in the United States. In addition, we will look at the current state of imports and exports for the United States. Finally, we will take a look at potential trends that will be seen in the next 12 months.

### **EXTERNAL FACTORS FACING THE FASTENER INDUSTRY**

#### **CHINA CURRENCY**

The United States and Europe have expressed in strong terms that they feel the Yuan is deeply undervalued and that China's currency must increase to encourage free trade between all nations. The low cost of the Yuan has been a major factor in the rise of Chinese exports as a low-cost source of products from fasteners to televisions, but as China's economy has matured, pressure for increasing the value of its currency

mounts. If China begins a significant revaluation of its currency, fastener importers in the U.S. and Europe could face a significant increase in the cost of goods, while Chinese suppliers could lose market share to other low-cost countries.

#### **INCREASED MARKETS**

Just 10 years ago, sourcing from China was largely a United States phenomenon. However, the growth of other markets for products produced cheaply in the East has led to many more customers and opportunities beyond the U.S. market. European com-

**THE FASTENER INDUSTRY IS DEPENDENT ON MANY OTHER INDUSTRIES TO BE A HEALTHY MARKET SECTOR. DEMAND-SIDE CONSIDERATIONS INCLUDE THE STATES OF THE HOUSING MARKET, THE MANUFACTURING SECTOR, AND COMPANIES PRODUCING DURABLE GOODS.**

#### **TRANSPORTATION CHANGES**

The steamship lines that transport fasteners from China and Taiwan to the United States and Europe faced significant challenges in the last 24 months. According to the Transpacific Stabilization Agreement, a group representing ocean liners, the top 17 global carriers lost \$6 billion in the first half of 2009. The cause of this was a sharp fall in demand from shippers followed by a steep decrease in the cost per TEU (Twenty-Foot Equivalent Unit) for containerized cargo as carriers scrambled to fill space on their vessels.

Carriers have now increased their rates to recover the lost revenue faced in 2009, and this has led to a rise in the cost of transporting products to their end markets. Carriers have also added charges to shipments that were not seen previously. These factors have led many shippers to reconsider their sourcing structures. While the fastener industry has recovered in 2010, it will face significant cost challenges in the form of increased transportation expenses.

panies significantly increased their sourcing efforts, taking supply-side market share from their U.S. rivals, and increased shipping routes have sprouted to support this demand.

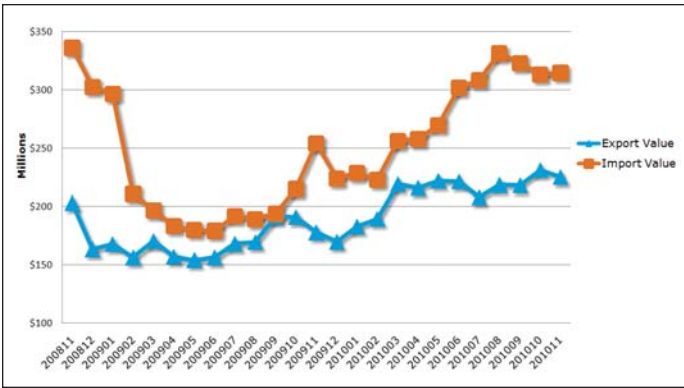
In addition, the traffic between Asian ports was one of the few areas in which carriers reported growth. As the market size increases, suppliers have many more customers available to them, and many are closer both geographically and culturally. This could be a factor in capacity for Asian manufacturers of fasteners in the coming years.

#### **TRADE WAR**

With all the talk about currency manipulation and Chinese influence on trade, some commentators contend that it is only a matter of time before a real trade war breaks out between the U.S. and China. There have been some signs of this already happening, including the antidumping/countervailing investigation of fasteners by the United States in fall of 2009. Other industries have been severely affected by such actions; for



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**Figure 1. 25 Month Trade Trend of Steel Fasteners (HTS - 7318)**

example, when the U.S. placed antidumping duties on Chinese tires, the Chinese retaliated with stiff duties on poultry imports from U.S. producers. This type of action could increase as the U.S. enacts quantitative easing and China holds on the Yuan's value.

## WHAT HAPPENED TO FASTENER TRADE IN THE LAST 25 MONTHS?

With the stage set indicating that the future of trade itself is not secure, what is happening in the fastener industry? To get a better idea, it is important to look at the past to see where it has been. Figure 1 shows the trend of steel fasteners (Harmonized Code - 7318); it is clear that the recession of 2008 and 2009 had a significant effect on imports and exports of fasteners to and from the United States:

U.S. exports are back above their 2008 levels, as manufacturers have been quick to adjust to the 'new economy,' with September 2010 up 6.6 percent over September 2008 and up 13.9 percent over 2009. Some point to a refocusing of U.S. suppliers of fasteners on emerging products and markets for this increase. On the import side, total imports are down 9.3 percent from September 2008 but up 66.6 percent from September of 2009.

Year-to-date (January to September), numbers show similar results: 2010 exports up 27.1 percent and imports up 37.1 percent from 2009. This can be seen as a sign that the fastener industry is well on its way to recovery, but it's also a reminder of how bad 2009 was for suppliers, distributors and manufacturers of fasteners.

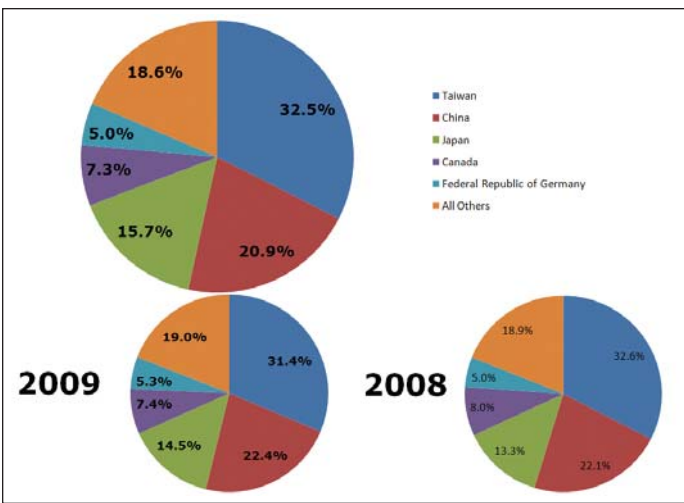
Some sourcing markets have fared better coming out of the recession than others, as the toll of the recession was mostly felt by Chinese suppliers. Figure 2 displays the market share of the top five U.S. import sources of supply comparing 2008, 2009 and 2010. While Taiwan's share of the market has remained steady at around 32 percent, China saw a drop of around 2 percent from 2009 to 2010. Japan has grown market share, going from 13.3 percent in 2008 to 14.5 percent in 2009 and now 15.9 percent YTD 2010.

U.S. exports (Figure 3) display stability in the markets where exporters are shipping their goods. Canada and Mexico have remained the top two markets for U.S. fasteners throughout the last three years. Exports to Japan have shrunk from a high in 2007 of \$79.6 million to a likely total of around \$60 million in 2010.

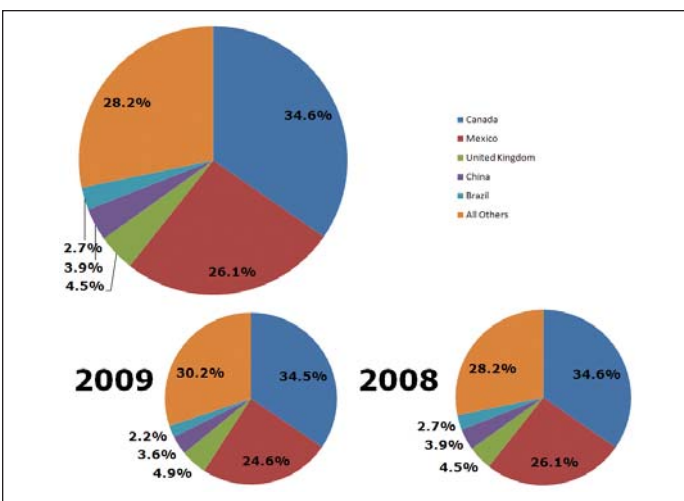
In Figure 4, the top five import product categories are displayed for the last two years:

Figure 5 shows the top five export products for the United States.

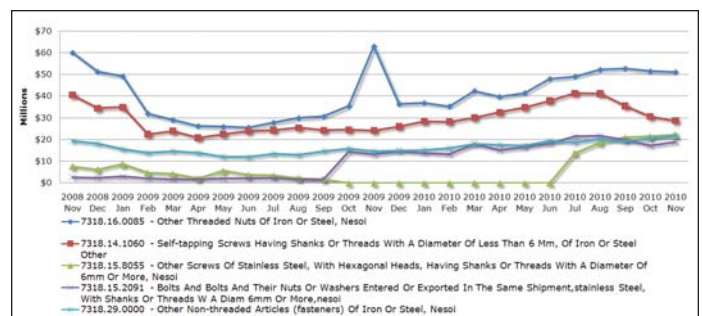
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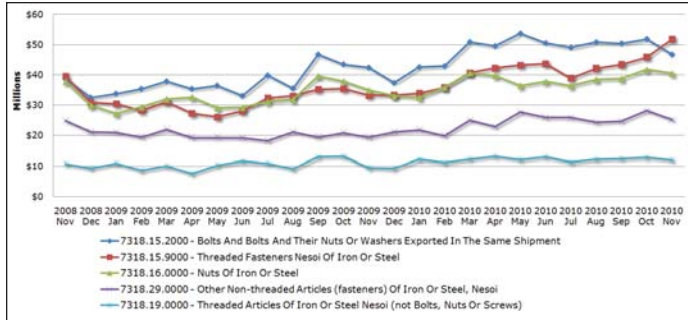
**Figure 2. Import YTD 2010**



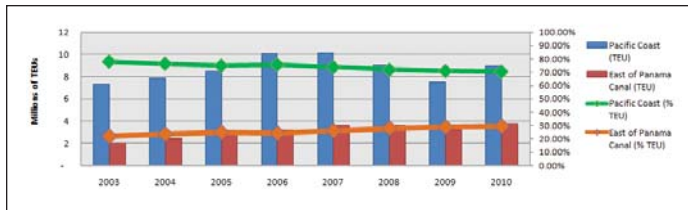
**Figure 3. Export YTD 2010**



**Figure 4. Top 5 Import Products for Steel Fasteners 24 Month Trend (HTS - 7318)**



**Figure 5. Top 5 Export Products for Steel Fasteners 24 Month Trend (HTS – 7318)**



**Figure 6. Asian Origin Shipments – U.S. Port Usage**

## PROJECTIONS

So what can the fastener industry expect to face in the next two years? While this article has focused a large amount on the turmoil over the last two years, all is not bleak, and the industry has recovered as the U.S. economy crawls back. Below are four trends to expect:

1. Housing and construction will eventually recover, but not until the large backlog of inventory is cleared off the market. This will be dependent on the United States' unemployment rate, as it directly affects the confidence of American consumers to buy new homes. However, expect the home improvement sector to continue to show growth as home owners attempt to upgrade their current homes.
2. Sources for U.S. imports will expand further beyond Taiwan and China. Emerging economies will enter the fastener industry as companies look for stable suppliers beyond traditional markets for cost savings and improvements in delivery times. Carriers are already responding to this market effect by expanding feeder routes to major ports.
3. Shipments of fastener imports will land in the U.S. closer to their end customers. Over the last seven years, shipping volume from Asia has steadily moved to ports east of the Panama Canal as companies avoid the added costs of Southern California ports. They are planning to take advantage of the new expansion of the Panama Canal and transit their goods in vessels heading east to west from Southeast Asia and India. See Figure F for an overview of the last seven years' total trade trend.

4. Advanced economies like Europe and the United States will still import a majority of their commodity fasteners and other products from China. However, their manufacturers will focus on unique goods and take advantage of the increased cost of logistics to serve customers in their own countries and beyond.

The fastener industry has been through a lot in the last two years, but it is likely that this recovery will eventually return trade to former levels. There are significant macro challenges ahead, both economically and politically; however, there are a couple of areas in which fastener companies can position themselves to have a bright future.

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