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In the Spotlight

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No let-up in freight and steel cost pressures

March 2021

"It's every bit as bad as it was". Grimly taciturn but typifying responses to the BIAFD's latest check with members on fastener cost and availability pressures, emanating from the ongoing sea freight crisis and escalating metals costs.

The common theme running through global Purchasing Managers Index reports for February was the sledgehammer impact on manufacturing of rising costs driven by supply- chain disruption and raw material shortages. As a vital supply-chain to UK and Irish manufacturing and construction industries, members of the British & Irish Association of Fastener Distributors confirm these pressures are at unprecedented levels - and that they show no signs of easing in the foreseeable future.

Any hope of improvement in sea-container freight rates and availability, once the Chinese New Year holidays were behind us, has rapidly been dashed, according to BIAFD members. As February closed, the hope was the holiday respite in Asian shipments might allow recovery of containers to key export ports. However, there is no evidence of improvement on the ground. Cargo is piling up in Asian ports and any capacity gains will be rapidly eroded as global demand continues to surge. One thing is sure, there is no let-up in container freight rates, which BIAFD members continue to report as five to six times higher than a year ago. Importers are facing 'all up' costs of up to £6000 for a 20DC container shipped from Asia to the UK. Depending on the product involved that can equate to as much as a third of the value of the box contents. If anything, rates look set to harden as shipping lines apply $500 seasonal surcharges early and seek to recover increasing fuel costs.

With replacement inventory urgently needed to meet buoyant demand across many sectors, plus freight industry warnings of little better than 50/50 chances of containers sailing on schedule, importers are having to 'bite the bullet' and pay exorbitant rates to try to ensure earliest possible arrival. While Mainland China is at centre of shipment unreliability and escalating costs, BIAFD members report Taiwan being little better and arranging bookings from Vietnam 'extremely difficult'.

The outlook? With a massive backlog of all types of sea-going cargo, continued major congestion in global ports, and surging demand as economies recover from Covid-19, freight agents are warning importers not to expect any improvements until at least June and most likely well into Quarter Three.

BIAFD members have always invested heavily in inventory to smooth out the impact of the inevitable headwinds that beset long-range importing. However, these are not headwinds: overworked as the expression often is, 'perfect storm' really is an apt description right now.

There are unavoidable realities for fastener consumers in all sectors. Shortages are now appearing for particular, in some cases high demand, sizes of nuts, bolts or screws. The levels of freight cost inflation simply cannot be absorbed and is now having to be passed on as substantial cost increases, with more inevitably to follow.

Fastenings

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The inflationary pressure from freight is further compounded by radical cost increases in steel and other key fastener manufacturing materials, including nickel, a major value element in stainless-steel fasteners. Carbon steel wire costs have escalated by more than twenty percent, with increases of ten percent or more already notified for Quarter Two. The picture is not unique to fasteners, as any steel buyer knows right now. Capacity is constrained and steel inputs, such as iron ore, are holding at historically high cost levels. Nickel market prices have escalated by more than forty percent year on year - driving sharp cost increases in wire for stainless steel fastener manufacturers. Equally concerning, wire lead-times are continuing to extend, with factories reporting real difficulty in sourcing all the material they need.

Whatever and whenever the eventual improvement in container availability, freight rates and material costs, it is clear they will not subside to anywhere near the levels enjoyed in previous years. Fastener importers and distributors have no choice to commit to the current extraordinary cost levels if they are to stand any chance of fulfilling their core role of providing supply continuity for industry and construction. With lead times upwards - in some cases beyond 30 weeks - those commitments are set to impact fastener costs in the UK and Irish fastener markets, indeed fastener markets throughout Europe, for the rest of 2021.

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Update 26.01.2021: Container shortages impact fastener supply chain

January 2021

The global crisis in freight container availability, and consequence massive escalation in sea freight costs, made mainstream headlines in December – as parents worried there would be no Barbie dolls or Peppa Pig toys in stock for Christmas. A month on, the decorations are down, but the fastener supply chain continues to struggle with the severe impacts on product availability and costs, with little outlook for rapid improvement.

At the beginning of December, the BIAFD warned that the shortage of shipping containers at major global export ports was seriously impacting fastener availability in the UK and Ireland, forcing up container freight costs three-fold.

The situation in January is significantly worse. The problem is global, and not directly related to the UK leaving the EU. That said, issues at Felixstowe Port, which knocked onto other UK ports, have exacerbated an already critical situation. The escalation of Covid-19 infections in the UK now also means shipping lines continue to avoid British ports, preferring to off-load in Northern European, adding a further two weeks before goods are received in the UK.

The latest picture from BIAFD importing members show Asia-North Europe container freight costs have continued to rapidly escalate: pushing them five times – in some instances even more - higher than mid 2020. For a container of some standard fasteners with a low value per weight, that could easily mean the freight cost now equating to a third of the value of the consignment. As a result, some BIAFD members have reluctantly decided they simply cannot afford to bring in product, even though current inventory is rapidly eroding to support increased demand from construction and manufacturing. Most fastener importers, however, are competing against high value consumer goods for scarce containers and being forced to pay massive premiums. Insult is added to injury, when they are then presented with additional charges of several hundred dollars, to ensure a container is collected in time to be loaded for its sailing.

There are signs of limited improvement in container availability in key Asian exporting ports, as shipping lines actively reposition empty containers and container manufacturers work all out to supply new boxes. However, container availability remains substantially in deficit with little immediate prospect of major improvement, and now the Chinese New Year is rapidly approaching. The most important Chinese holiday period, this year in mid-February, always means a surge of export activity ahead of factory closures, increasing pressure on extremely limited container capacity, followed by several weeks of catch up, once factory, haulage and port operations return to work. As early as the second week in January, BIAFD importers were being told by freight agents that there was no possibility of their containers being shipped before the Chinese New Year.

Update 26.01.2021: Container shortages impact fastener supply chain... Cont.

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Governments around the world may be losing patience with the apparently out of control shipping rates and supplementary charges. However, threats of capping shipping costs or competition authority investigations are currently doing little more than shaving the very tip of the iceberg.

BIAFD currently sees little probability of significant improvement, either in availability or freight costs, until well into the second quarter 2021. Its members' highest priority is to maintain the best possible availability for critical manufacturing and construction supply chains. That inevitably means fastener costs will increase significantly, as at least some element of the massive hikes in freight costs are unavoidably passed on, alongside the impact of major increases in steel and stainless steel raw material costs.

UK
t: +44 (0)8454 811 800 f: +44 (0)870 458 7851
e-mail: uk@trfastenings.com

Ireland
t: +353 (0)22 22301 f: +353 (0)22 22056
e-mail: ireland@trfastenings.com

Netherlands
t: +31 (0)541 511515 f: +31 (0)541 517134
e-mail: netherlands@trfastenings.com

Norway
t: +47 67 06 70 00 f: +47 67 06 70 10
e-mail: norway@trfastenings.com

Sweden
t: +46 (0)8 578 44 900 f: +46 (0)8 578 44 950
e-mail: sweden@trfastenings.com

Spain
t: +34 93 647 22 45
e-mail: spain@trfastenings.com

Hungary
t: +36 (06)24 516970 f: +36 (06)24 516961
e-mail: hungary@trfastenings.com

Poland - Representative
t: +48 (22)402 36 14 f: +48 (22)402 36 24
e-mail: poland@trfastenings.com

Italy
t: +39 (0)75 9149015 f: +39 (0)75 9190165
e-mail: info@trvic.it

Germany
t: +49 (0) 5246 . 50320 - 0 f: +49 (0) 5246 . 50320 - 70
e-mail: info@trkuhlmann.com

Slovakia - Representative
m: +421(0)911 012 016
e-mail: slovakia@trfastenings.com

USA
t: +1 800-280-2181 f: +1 281-807-0620
e-mail: usa@trfastenings.com

Singapore
t: +65 6759 6033 f: +65 6759 6022
e-mail: singapore@trfastenings.com

Malaysia
t: +6 (03) 5519 1444 f: +6 (03) 5510 8505
e-mail: psep@psep.com.my

China
t: +86 21 5032 5696 f: +86 21 5032 5775
e-mail: china@trfastenings.com

Taiwan
t: +886 7 557 6366 f: +886 7 557 1977
e-mail: taiwan@trfastenings.com

Philippines - Representative Office
t: +63-25768476
e-mail: philippines@trfastenings.com

India
t: +91 (0)44 4280 3932
e-mail: india@trfastenings.com

Thailand
t: +66(0)2 130 6562 f: +66(0)2 130 7603
e-mail: thailand@trfastenings.com

Japan - Representative
t: +81(0)70 4467 1118
e-mail: japan@trfastenings.com

Technical and Innovation Centres

Birmingham - UK
t: +44 (0)121 521 0100 f: +44 (0)121 521 0101
e-mail: wednesbury@trfastenings.com

Gothenburg - Sweden
t: +46 (0)31 31 760 776 f: +46 (0)8 578 44 950
e-mail: sweden@trfastenings.com

CUICAR - South Carolina USA
t: +1 800 280 2181 f: +1 281 807 0620
e-mail: usa@trfastenings.com

sales@trfastenings.com

www.trfastenings.com

info@trfastenings.com