Another Silver Lining

Fastener Industry's Opportunity, Pitfall and Key to Survival

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Conundrums Bump Against China's 15-month Trade Growth

As the world's largest manufacturing country, China traded RMB 24.78 trillion worth of goods in the first 8 months of 2021, up 23.7%, among which the export grew 23.2% to RMB 13.56 trillion and the import grew 24.4% to 11.22 trillion. The trade took a drastic upturn in the middle of 2020 (roughly 15 months ago) and went on. The third quarter this year maintained a double-digit growth, and the same goes with the trade in July as well as August.

Narrowing down to the fastener industry, it shows that China exported 2.65 million tons of fasteners in the first 7 months of 2021, up 20.9% from the same period last year; the export value arrived at USD 5.97 trillion, up 22.2% showing strong export momentum in the first half of 2021. China's fasteners are irreplaceable for their price, output, and speed of production which continue to drive a high level of demand from the world regardless of the pandemic. There is one distinction though, and that is logistics issue after the COVID outbreak, along with business owners' gut-wrenching cost pressure, transport barriers, and heightened price posing as a tall wall bumping against the burst of China's export.

On September 15 this year, China Containerized Freight Index reached a record high at 3,079.04 points, up 1.9% from the previous period and up a whopping 269% from the lowest point of 834 last year. Freight rate has been variating on a daily basis since the second half of 2020. It used to be RMB 30 to 50 thousand but now it just morphed into USD 30 to 50 thousand, and there are times when it goes beyond the goods price. Skyrocketing sea freight rate is devouring 30-50% of profit off Chinese companies.

The companies stands to cope with 3 challenges which are heightened material cost and freight rate, transport barriers and high inventory load, and they have to tighten their belts on cash flow more than ever. Some small and medium enterprises have begun to suppress production. The point for the time being is to secure abundance of corporate cash flow. Taking too many orders or excessively expanding capacity could end up meeting a fist from the post-pandemic-outbreak era.

Opportunities for Fastener Companies:

New Energy Cars; Orders Redirected from Southeast Asia; China-Thailand Mini-FTA

China produced 16.16 million vehicles (up 11.9%) and sold 16.55 million vehicles (up 13.7%) in the first 8 months of 2021, keeping a stable growth. It is worth noting that new energy car production and sales in August both broke 300 thousand vehicles for the first time. The sales grew 18.6% which was fast and apparent, setting a new record in history. New energy car sale in the first 8 months was 1.79 million, up 21.7% from the same period last year. Sales were looking optimistic.

Regarding automotive components, the export value in the same period grew 34.6% to RMB 316.5 billion, up an astonishing 900%

compared with the lowest point in 2019. The reason can be traced back to the recovery of international market demand starting in the middle of last year. The current orders taken have increased over 80% and orders are visible 3 months ahead.

In the backdrop of those 3 challenges, the domestic and overseas markets for automobiles and automotive components could provide fastener companies with a solution for the current phase in the post-pandemic era. In addition, Southeast Asia could offer another opportunity for fastener companies.

The virus sweeps the U.S. and Europe and on to Southeast Asia like a hurricane this year. Broken supply chains caught ASEAN countries off guard. This July, factories in Indonesia, Malaysia, Vietnam, and Thailand witnessed a two-month consecutive drop in capacity and number of orders taken. The manufacturing industry index dropped to below 50 (on a scale of 100). This means local Southeast Asia factories and foreign ones closed as a result of the pandemic, which caused a sudden loss of supply source for the U.S., Europe and other countries. A large number of these countries redirect their orders to China which provides Chinese fastener companies with a route to business opportunities. However, this is a double-edged sword. As orders swarm into China, the issues with jam-packed sea ports dictates that the inflow of orders will lift the freight rate of export on Chinese fastener companies, and the pitfall is that it could exacerbate the 3 challenges mentioned above. As such, it will be necessary to count the pennies on the profit margin of standard fasteners as well as the possibility of withholding cash flow on the current corporate scale.

This August 20, Thailand’s Ministry of Commerce and China’s Department of Commerce of Hainan Province singed a mini-FTA that seeks to enhance extensive collaboration in trade and investment. This perhaps came at the right time for local fastener companies.

Highlight on a New Trend in Development:

Automotive Parts Recycling

The pandemic boosts the world's awareness on health care and sports, along with environmental protection. BMW took a step forward and developed the 100% recyclable concept EV named **“BMW i Vision Circular”** based on the four principles of **“RE:THINK, RE:DUCE, RE:USE, and RE-CYCLE”.** The car body uses recycled steel and recycled aluminum, and all components on the car are recyclable. The goal is to reduce the use of components and use recycled materials. The car avoided using quick-release fasteners and other connecting components to facilitate convenience in disassembling and components recycling. BMW goes on to announce to use reusable components on all new vehicles under its brand by 2025. If this design concept is brought into reality in the future, it could force the fastener industry to readjust automotive fastener supply.

Do You Hold the Keys to Sustaining Through the Next 5 Years?

Mid-term and long-term business plans must be deliberately evaluated upon available capacity and the budgets for product development. It also calls for stabilizing cash flow, workforce, and containing the spread of virus. It further requires foreseeing the possibility for your products, service model, logistics and cash flow to coexist with the virus in the next 5 years in which the virus reoccurs periodically as a new normal. As the future unfolds with the world treading slowly past the “blocking” phase, “coexistence” and “horizontal collaboration” across the supply chain will be the key capabilities determining if a company will be able to sustain through the next phase.