

Conflict has spillover effect on world's factories

- Soaring prices of raw materials can be felt globally

BEIJING: The cost of manufacturing household goods in Asia is being driven even higher by surging energy and commodities prices triggered by Russia's invasion of Ukraine, adding fuel to the fastest global inflation breakout in decades.

The warnings from Asia, the world's biggest manufacturing region, underscore how the war in Ukraine is piling pressure on factory managers that were already grappling with supply snarls from the pandemic. The United Nations estimates around 41% of global exports are sourced from the region.

Prices are soaring for raw materials that go into everyday household goods. Copper, used in appliances and wiring, reached new highs. Nickel, used in lithium-ion batteries, has spiked to a record while other raw materials including aluminium and palladium have jumped.

As a net importer of oil, Asia is vulnerable to Brent crude's rise to over US\$130 (RM544) a barrel, the highest since 2008.

Makers of products as diverse as clothes hangers, guitar amplifiers and drinking fountains for pets are already feeling the latest squeeze.

"Everything is expensive now," said Paul Tai, regional director, Far East, at Mainetti, the largest clothes hanger company in the world, which has operations in China and across Asia. "The chances of prices coming down are minimal and our customers know they need to accept this."

Tai cautions that the oil price spike will inevitably impact manufacturers, especially those using plastic.

Kenway Lam, who runs a Hong Kong-based maker of packaging machinery for products that include bread, cookies and ketchup for clients in North America and around the world, said prices for the metals that his factory needs have increased by at least 20% in recent weeks.

"It's mostly impacting our raw materials costs, aluminium and steel," said Lam, managing director of Kizui Packaging Machinery Co, whose manufacturing is completed in Guangdong and Taiwan.

Data on Wednesday showed China's producer price index remained elevated in February, rising 8.8% from a year earlier. Bloomberg Economics warns industrial costs in China will remain pressured by the war in Ukraine.

Evidence of such price pressures are also showing up on Bloomberg's global trade tracker.

Closely watched Purchasing Managers Index gauges for the broader Asia region suggest input and output prices are rising again.

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Goldman Sachs Inc economists say the conflict's fallout will exacerbate the supply-demand imbalance that's at the centre of the global inflation surge.

"Asia's supply chains have yet to heal. Factories are still cranking out goods, but port backlogs and container shortages continue to delay deliveries and drive up costs – and the commodity-price jolt triggered by Russia's war on Ukraine is likely to make matters worse," said Bloomberg Economics economist Justin Jimenez.

Spillover from the Ukraine invasion goes beyond commodity prices and includes currency market volatility and complicated logistics between China and Russia, according to Ben Chu, co-founder of manufacturese.com, which matches suppliers with potential buyers.

“The difficulties appear to be more than just raw materials,” he said.

The conflict is also a threat to the export boom that Asia has enjoyed through the pandemic.

A steep slowdown in Europe’s economy on the back of the energy spike would hamper demand for goods, said Juliana Lee, Deutsche Bank AG’s chief Asia economist.

“The greatest source of spillover would be via the impact that the conflict and higher energy prices would have on European economies,” she said. “Asian export volumes would contract in case of a severe scenario.”

For now, the focus for Asia manufacturers remains on managing their costs and navigating supply blockages that began during the pandemic and have yet to be resolved.

In the electronics business, for example, lead times for getting hold of integrated circuits are stretching.

That’s a pressure point for Alfred Ng, who is having to place orders up to one year in advance to make a range of products, including professional audio mixers, guitar amplifiers and pet training items.

“If we don’t place our orders 52 weeks in advance, there is no chance that we can get it,” said Ng, chief technology officer of Suga International Holdings Limited, whose production facilities are in China and Vietnam. “Only if you are in line do you have a chance.”

— Bloomberg



High costs: Employees work with aluminium ingots at a factory in Huaibei, China. Prices are soaring for raw materials that go into everyday household goods like aluminium. — AFP