

BYA

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Material price hikes put marine business in a bind

A compendium of articles offered by: Bay Yacht Agency, 410-263-2311

info@bayacht.com

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BYA Summary: Inflation and rising taxes will greatly affect boat prices going through 2013. Unlike with real estate, at least in the sailboat industry, the back log of stock and used boats is at or below normal levels so prices have leveled off and are expected to rise dramatically with inflation. Typically, inflation on boats rises at least twice the rate of general inflation—keep in mind that the current inflation index does not take into consideration gas or food! Read on to find out more about the effect of petro-chemical prices on boats... (Also keep in mind that the price of used boats, follows the price of new boats. As new boat prices increase, so do used boat prices.)

Summary: Boating Industry International's seven-article "Cover Story" package examines the impact of increasing prices of boatbuilding materials on the industry.

By James Denn

WORLDWIDE

Boatbuilders around the world will be paying higher prices for the material used to build boats as a result of rising oil prices and a shortage of a key chemical used to make fiberglass. In the end, marginal boatbuilders may be pushed out of the market.

The rise in raw material prices comes amid a growing worldwide economy that has enjoyed little inflation. But the good times have lulled the marine industry into complacency. The price crisis has caught most people in the business off guard.

The problem has gotten so bad that manufacturers actually are talking about the possibility that styrene, a key component in boatbuilding, may be rationed by producers. That would be a devastating blow.

Other parts of the marine industry also are being hurt, including marina operators and marine towing companies.

Rising prices are caused by two events — the price of oil and the shortage of production capacity. Almost everything that goes into making a boat — resin, gelcoat, composite materials, coring materials — is tied to oil. But even if the price of oil falls, the shortage of production capacity will remain until 2013, according to industry estimates.

To add to the industry's worries, the increase in raw material prices may spark inflation, which would force governments to raise interest rates. Higher interest rates would cut consumer demand for boats.

*For related information, please visit www.boating-industry.com and use the following keywords in an article search: **fiberglass, resin, styrene.***

WORLDWIDE

Boatbuilders facing price, material crunch

The recreational marine industry will be facing a huge challenge in coming months to deal with a rise in boatbuilding costs, as well as a potential shortage of a key material used in nearly every boat worldwide.

Two factors — climbing oil prices and unexpectedly strong demand for styrene, the prime ingredient used to make fiberglass resin — have combined to push the boating industry toward its most critical phase in years.

During the next few months, prices for raw materials used in boats are expected to skyrocket. As a result, boatbuilders will see higher manufacturing costs, lower profit margins and fewer boat sales.

Production costs for the marine industry may rise 6.4 percent because of the increase in styrene resin used in fiberglass. Boatbuilders who sold boats based on already-set prices and builders too small to win volume discounts from suppliers will be hardest hit. Those companies will have to absorb any cost increase.

And it is not only users of styrene getting hurt. US-based Genmar Logic LLC uses polyethylene, not styrene, to make boats. Like styrene, the price of polyethylene is tied to oil.

Almost every niche in the market will be pinched by rising prices, including paint manufacturers, marina operations, boat dealers, towing services, transportation companies and bankers.



For boatbuilders, the worst may be yet to come. The increase in styrene prices has not fully hit the market. Many boatbuilders will not see a real price increase until summer.

Leaders in the marine industry are scrambling to find a way to negate the expected price increases, but the effort may prove futile. The problem is too widespread across industry segments and countries worldwide to be solved on a national basis.

Styrene demand

In the past, a shortage of a particular material or chemical in the industry usually was contained within a particular country or region. Today, however, companies buy and compete for material produced around the world. Now, when there's a shortage, every company feels it.

While rising oil prices hurt every company, it is a shortage of styrene that worries the marine industry the most. In 10 pounds of fiberglass, there are six pounds of resin. Of that, roughly 42 percent is styrene.

Styrene is a true blue global commodity. It is easily shipped and for the most part is relatively the same, no matter who makes it. The marine industry consumes about 1 percent of the styrene produced worldwide. As a result, boat manufacturers must compete with the larger users of styrene.

While oil prices may fluctuate, it is the demand for styrene that will drive boat prices in the future. According to a study by US-based Chemical Market Associates Inc. (CMAI), a research firm covering the petroleum industry, the production of styrene on a global basis soon will fall short of demand.

Beginning in 2001 through 2004, annual styrene production is expected to increase 2.3 million tons. Meanwhile, demand will grow by 4 million tons a year, leaving a shortfall of 1.7 million tons. (This has gotten far worse more recently! ED)

CMAI styrene analyst Alex Lidback says the scheduled building of new styrene manufacturing plants and the upgrading of capacity in existing plants will not be enough to meet forecasted demand growth, and as a result, there will be future price hikes.

Fiberglass is a growing component in the marine world. More than half of the outboard and sterndrive boats use fiberglass, according to industry estimates.

A driving force — oil

Analysts are working on calculating how far styrene prices will climb. In 1998, a pound of styrene could be purchased for 17 cents on the spot market. In March of 2004, the price had climbed to 40 cents a pound, a 135 percent increase. (ED-in Feb 2011, price \$.69--\$.71)

The chemical manufacturing industry was not expecting the styrene market to change as quickly as it did, but demand was stronger than projected and there was a delay in building styrene-manufacturing plants. Added to the mix was a huge cost-push by the oil industry.

"Suddenly, it was a tight market," says Lidback. "The industry has not been able to react."

Jim Hardin, quality assurance manager of US-based Grady White Boats Inc., and Kent Wooldridge, president of the US-based buying group, the United Marine Manufacturers Association (UMMA), say there is a potential for a styrene shortage.

Most of the major suppliers of resin are warning of price increases, including US-based companies such as Interplastic Corp., Reichhold Chemicals Inc. and Alpha/Owens Corning.

Styrene is not the only item getting white-hot. US-based Eastman Chemical Co. recently raised the off-price list of its glycol, another key component in fiberglass, by 12 percent.

Several years ago, the marine industry suffered from a shortage of fiberglass so severe that fiberglass was rationed. It was mostly US manufacturers affected by the shortfall.

The industry may be on the verge of repeating that scenario, but this time on a global basis.

"There is a worldwide shortage for fiberglass with tremendous increase of prices within the last six months," says Klaus Kölzer of Spheretex GmbH, a German-based manufacturer of core materials. "Further increases [have been] announced."

It has been tough on suppliers. US-based Lilly Industries Inc., a manufacturer of boatbuilding chemicals, saw its first-quarter profits fall because of the rapid rise in petroleum-based raw materials costs.

Meanwhile, OMNOVA Solutions Inc., a manufacturer of fabrics used in boat seats and in-mold coatings for fiberglass used in boats, says raw material price increases, primarily in styrene and PVC resins, negatively affected operating income by approximately US\$7 million during the first quarter.

OMNOVA says, during the quarter, styrene prices climbed 52 percent vs. last year. In response to higher material costs, the company pushed price increases across all its product lines. However, further raw material price increases are expected.

Not everyone agrees with the doom and gloom analysis, however. Dick Evans, business director of the composite polymers division of US-based Ashland Chemical Co., calls it a challenging environment for boatbuilders, but so far, no company has been put on allocation.

"Demand has grown faster than forecasted," says Evan. "Our feeling is that by [September], supply and demand will no longer be a negative factor."

Price hike at bad time for UK builders

Already hampered by a strong British pound, David Rubin, production director of UK-based Westerly Group Ltd., says the skyrocketing cost of resin will hurt UK builders' efforts to export.

Many UK boatbuilders already have set their prices for the year. People who bought boats for future delivery are expecting them to be built at the agreed upon price.

In those cases, the builder will have to take the loss. And some companies have orders for boats that won't be delivered until next year. Those companies may be hit even harder by the price increase.

Swedish yacht builder Hallberg-Rassy Varvs AB, for example, sells all of its boats at a fixed price. At the moment, the company is selling boats for delivery 25 months in advance. To keep prices competitive, Hallberg-Rassy must try to account for future price fluctuations.

"The hard task we are facing is to judge what the cost will be to build a boat two years from now and how the exchange rates are then," says Magnus Rassy of Hallberg-Rassy. "Of course, nobody can give a good answer today; it is, and remains, a guess."

John Pollitt, owner of UK-based JEP Marine, a builder of clinker-type boats and cradles for racing dinghies, says he may be forced out of the cradle business if prices rise as expected.

Pollitt's company typifies many in the European marine industry. Only producing 30 to 40 boats a year, JEP Marine does not have the volume to cut deals with suppliers.

Pollitt's fiberglass supplier has warned him to expect price hikes upward of 20 percent. "It's going to be a scary year," says Pollitt. "We will not be making any money."

Manufacturers in other countries also are worried. Kendall Barry-Cotter of Australia-based Riviera Marine, a

manufacturer and exporter of luxury cruiser yachts, says, for the past 10 years, the price of the styrene and glycol products have remained stable due to the manufacturers' ability to absorb costs through greater efficiencies.

However, in the past few months, the market demands for these products has increased. "These events which have created greater demand on available product give the manufacturers the ability to source a client that is prepared to pay the highest price," he says.

Barry-Cotter says there are many other factors pushing up costs in Australia, including cost of shipping due to fuel, up 15 percent; a new federal tax that will cause a cash-flow problem for some importers; and a lower Australian dollar value.

"Unless there is a major change in the economies of the world and/or production increases, the prices can expect to rise further over the next 12 months," says Barry-Cotter. "These costs directly effect the viability of businesses using these products."

Way around the problem

Not all boat manufacturers will immediately feel the full brunt of the price increases.

Jay Patton, president of the American Boatbuilders Association (ABA), says his members are temporarily isolated from rising prices because of long-standing supply contracts with suppliers.

"We are experiencing modest increases, but we have been able to keep them under control," says Patton.

The ABA has contracts with Vetrotex America, a division of France-based Compagnie De Saint-Gobain, for fiberglass, Ashland for resin, and Ferro Corp. and Lilly for gelcoat.

Other buying groups also have agreements with suppliers. "We are doing what we can," says the UMMA's Wooldridge. "Our contracts have a delay in them, and with notification, the manufacturers can raise prices."

Grady White has a contract with a resin company that allows the resin company to pass on a price increase. "I think we will see them come to us," says Hardin. "We haven't seen it yet, but we will see the rise in price from resin."

Grady White makes an estimated 2,000 boats a year. Hardin thinks the price of boats will go up, perhaps within a few months. "The consumer is going to feel it," he says.

(ED- Concerning BYA's 2 product lines: Both manufacturers are large enough to use more sophisticated, resin injection processes which reduce the amount of resin required. In addition, **Jeanneau** is a part of the largest boat building group in the world, and builds over 5,000 boats a year. Because of aforementioned contracts, price increases have been delayed, but are coming. **Fountaine Pajot** is the worlds largest catamaran builder, and also has some built in price protections—but for both manufacturers that is about to end)

Manufacturers of low-styrene products may benefit

While nearly every company is bemoaning the high price of materials, companies that use or sell low-styrene production may end up stronger as a result.

Steve Blaich of US-based Cobalt Boats says his company is working to wean itself off styrene, but hasn't met with much success yet. "We are evaluating different low-styrene materials," he says. "We have not made any huge strides because we have not been forced to yet."

But styrene price hikes may push Cobalt to increase efforts to use low-styrene products. Cobalt makes 55

boats a week. The average cost is US\$50,000. A large percentage of the cost is raw material. "When it's jumping up like this, manufacturers are going to get hit hard," says Blaich.

But the change to low-styrene resins and gelcoats will be substantial. At the moment, less than half the boatbuilders use low-styrene product. With three years, it is anticipated that all builders will have converted.

Robert Fuller, vice president of sales at US-based Brunswick Technologies Inc., a manufacturer of engineered reinforcements used in hull laminates, sees higher resin prices as an advantage.

Fuller says higher prices will require builders to look for ways to reduce use of resin, such as more careful application of resin and the cutting of scrap rates. They also will look at the process more efficiently.

In the future, there will be less use of gun-roving and copper gun applications of fiberglass. There will be greater use of roll fiberglass as opposed to sprayed on fiberglass.

Losers in the new price environment may be the companies that choose not to adopt new technologies, says Fuller. "The companies that use open-mold spray applications would have the most exposure," he says.

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*"An understanding of inflation is also crucial in making plans to save for retirement, college education, or a boat. One must use an appropriate price index in calculating the funds required for a given purpose. The CPI is a good guide for retirement purposes. **But if one is saving to buy a boat, even the CPI may not produce a good result—the individual may want to specifically know the way boat prices are increasing.** Nevertheless, an understanding of price indexes prepares an individual adequately to explore such questions further. "*

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"Are you ready for rampant inflation? Well, unfortunately it looks like it might be headed our way. The U.S. monetary base has absolutely exploded over the last couple of years, and all that money is starting to filter through into the hands of consumers. Commodity prices are absolutely skyrocketing"... Read the rest

<http://theeconomiccollapseblog.com/archives/rampant-inflation-in-2011-the-monetary-base-is-exploding-commodity-prices-are-skyrocketing-and-the-fed-wants-to-print-lots-more-money>

