



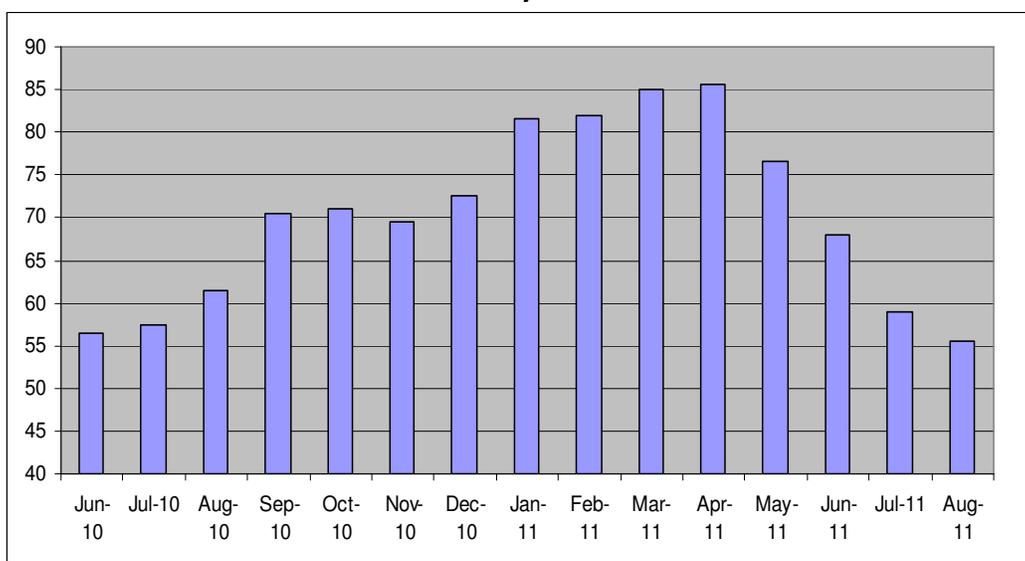
United Sourcing Alliance actively monitors market pricing to ensure our supplier partners remain competitive with market fluctuations. Below you'll find our latest update on key commodities and currencies. Please contact Gene Smith at [gsmith@usa-llc.com](mailto:gsmith@usa-llc.com) or 704-697-9695 Ext 14 if we can assist you further.

## Commodities Update September 29, 2011

**ISM Report on Business** – The latest report shows that the manufacturing sector grew for the 25<sup>th</sup> consecutive month with the Purchasing Managers Index (PMI) reporting a reading of 50.6%. A PMI index over 50 represents growth or expansion within the manufacturing sector of the economy compared with the prior month. While this number points to continued growth, I believe it is important to understand that the rate of growth has slowed significantly. The current index of 50.6% is down 10% from our previous quarterly report. The Production Index of 48.6% is indicating contraction for the first time since May of 2009. An overall feeling of concern and caution for our current economic environment is affecting customers' confidence.

The ISM Price Index came in at 55.5% in August compared to the 85.5% reading from our last report. This is an indication that while some manufacturers continue to pay more, price increases are coming at a much slower pace. Some commodities are now down in price, but in our last quarterly update none were down. Of those participating in the ISM report: 29% reported paying higher prices, 18% reported paying lower prices, and 53% reported paying the same. Compare that to our last report where 72% were reporting higher prices. Commodities reported to be up in price are: Aluminum Products, Butadiene, Caustic Soda, Rubber Products, Transportation Rates, Diesel Fuel, Steel, Electric Components, and Paper. Commodities reported as down in price are: Natural Gas, Polyethylene Resins, and some Steel Products.

**ISM Commodity Price Index - YTD**



Reported on the first business day following the close of the month, the ISM reports are the first look at economic activity for the prior month and are closely watched by policy makers and economists. You'll find a link to each monthly report on our web-site's home page at [www.usa-llc.com](http://www.usa-llc.com).

## MARKET UPDATES

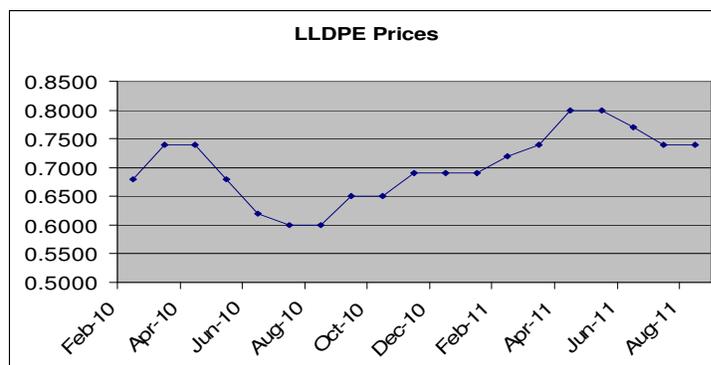
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**Polyethylene** – Contract PE remained unchanged in August after two straight months of decreases. A price increase of \$0.05 per pound that was originally scheduled for August has now been delayed. The increase that producers were hoping to get in September has been pushed out to October at the earliest. Weaker domestic demand, increased inventories, lower production costs, and the overall state of a global economy were its undoing. Producers continue to push for an increase but the reality is that there is little to no support in the market for this increase. The only factor to support an increase is higher production costs. Producers will continue to look for reasons to increase prices but unless spot ethylene prices reverse their trend the increases will be hard to come by.

**HDPE** – High Density Polyethylene (used in carpets, containers, bottles, bags, much of what goes into your recycled bins on trash day): Domestic sales of HDPE were up in July by 3.8% compared to the June number. Export volume was up compared to the same period a year ago. Producers operated at a 93.7% capacity rate in July which was the highest level since our last report. Automotive demand and sales into the pipe market are both up compared to the same period in 2010.

**LDPE** – Low Density Polyethylene (used in tubing, food trays, bags, and the plastic rings that hold beverage cans together): Domestic LDPE demand was 2.2% higher in July with production facilities operating at 90.5% of capacity. That is the second highest monthly operating rate of the year. Exports were up in July while sales into the film markets were down. Inventories as expressed in terms of days of sales stood at 37.2. This level is significantly improved over the same period a year ago when inventories stood at 25 days.

**LLDPE** – Linear Low Density Polyethylene (used in stretch film, shrink film, sheeting, bags, and other flexible packaging products): LLDPE demand was back up in July with sales of approximately 880MM lbs, a 10.5% increase over June levels. Sales into the film markets are up 3.8% in 2011 compared to the same period in 2010. This market represents the single largest end use application for LLDPE resins. Inventory levels are at 44.8 days of sales compared to 25 days at the same period in 2010.



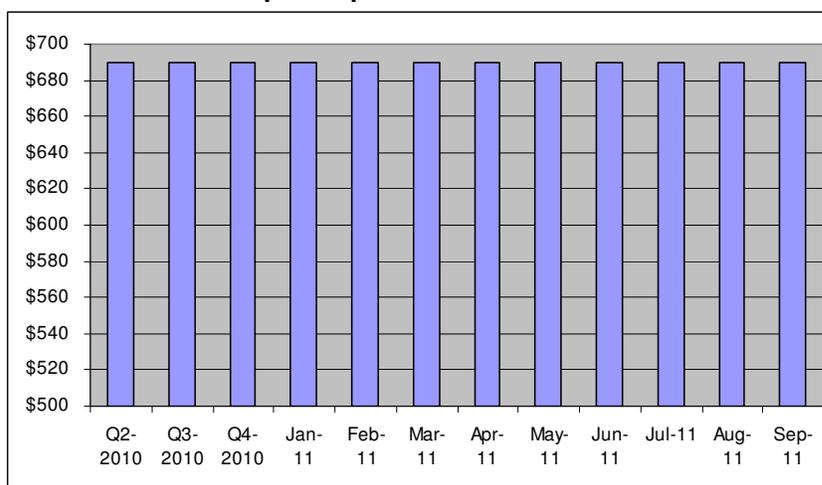
Charts are also available for LDPE & HDPE. Contact Gene Smith if you would like those.

**Corrugated Containers** – US linerboard prices have remained stable for the past eighteen months which makes for a very boring chart below. This market has been described by most as steady with no real demand increase so far this year. Most plants are not running at full capacity even though mid-August to September is normally a kick-off to the busiest time of the year as producers head into the holiday season. Box shipments appear to be relatively flat so far this year. One factor given as to box shipments being flat was that the agricultural harvest numbers are down for the year. Many of us do not realize the impact that segment of the market has in the manufacturing demand for boxes.

August was a pretty good month for containerboard mills running at 97.5% capacity. This number was only slightly down from the 97.8% reading in July. Containerboard inventories at the mill level fell in August by 13% to 279,000 tons. However, inventory levels at the box plant rose almost 1%, or 16,000 tons, to 1,937,000 tons. Most industry experts say that inventory at the mill level has a much greater impact on pricing than do the box plant levels. With that said we will keep a close eye on those mill levels.

During late first quarter there was some rumblings of an attempted price increase for early fall, but with flat demand we do not anticipate any movement. We will continue to monitor and will send out a separate report should things change.

**Pulp & Paper Linerboard Index**



**Chemicals – Toluene:** The US toluene spot price fell below \$4.00 per gallon mid-second quarter and after a volatile market over the past few months continues to remain below that mark. Weaker energy prices have been the primary driver for lower prices with a June price of \$3.50 per gallon. The market rebounded in July to \$3.95 but remains below the \$4.00 mark.

**Isopropanol:** U. S. contract prices for isopropanol, which had increased \$0.10 per pound in June, has recently lost ground losing \$0.17 per pound on weaker demand. Feedstock prices were up in May but fell back in both June and July. Producers will continue to face pressure over the next several weeks to lower contract prices again.

**Caustic Soda:** Prices have remained fairly stable over the past couple of months as a steady supply has been balanced with a steady demand. U. S. Gulf export prices remain at the same levels of \$420 - \$450 per dry metric ton. U. S. Gulf barge prices remain in the \$430 - \$460 per dry short ton range.

**Benzene:** For the third quarter U. S. benzene prices have been very volatile. Both spot and contract prices were lower in June and July. The contract price fell by \$0.54 per gallon to a \$3.69 mark in July. The price recovered in August to \$4.13 per gallon on higher energy futures and lower benzene production rates. Look for this market to continue to be volatile and closely follow the energy value path.

**Methanol:** U. S. contract prices which have been fairly stable through mid- third quarter have posted an increase of \$0.10 per pound over the past few weeks. An unexpected producer shutdown in July was responsible for this movement. Spot prices have been slightly more volatile, moving up on the contract price increases then falling back as crude oil prices have dropped.

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**Steel** – As we take a look at the steel markets prices continue to be mixed. There are reports of decreases as well as increases. In this months ISM report steel shows up as commodities up in price and as commodities down in price.

Hot band prices fell in August by approximately 5% while flat rolled products increased. Domestic production is up 6.2% over 2010 and steel imports are up almost 22% over 2010. Steel shipments from US mills through the end of June are up 5.8% over the same period last year.

Contributing is the surprising increase in U. S. auto sales. The big three from Detroit all reported gains in August sales. Chrysler reported the largest gain at 31% while GM and Ford reported 20% and 11% respectively. Nissan reported gains of near 20% while Toyota and Honda reported loses. Supply issues as Japan continues to recover has created significant shortages of both cars and trucks for Honda and Toyota. Nissan was less impacted as it had built up inventories prior to the earthquake in anticipation of a big sales year.

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**Energy Outlook** – The West Texas Intermediate spot price for crude oil fell from an average in July of \$97 per barrel to an average of \$86 per barrel for August. The projected yearly averages have been reduced slightly from the previous report with 2011 coming in at \$94 per barrel and 2012 rising to \$95 per barrel. The latest revisions on the demand side still indicates increases for crude oil world wide but at a much slower pace than last quarters projections based on the latest economic news.

Retail regular grade gasoline which peaked in May at \$3.97 per gallon has fallen back to a weekly average of \$3.65 in August. The average is now forecast to be slightly lower in the fourth quarter at \$3.47 per gallon. The yearly average for 2011 is now expected to be \$3.56 up \$0.78 per gallon over the 2010 average of \$2.78. The 2012 yearly average is forecast to be fairly flat at \$3.54 per gallon. Volatility will continue to prevail.

On-highway diesel fuel retail prices have been revised slightly lower and are now forecast to average \$3.85 per gallon in 2011 and \$3.87 per gallon in 2012. This continues to be significantly higher than the 2010 average of \$2.99 per gallon.

The Henry Hub spot price for natural gas averaged \$4.05 per million Btu for August 2011 which is \$0.37 lower than the July average of \$4.42. The current forecast for pricing has been lowered with the 2011 average now at \$4.20 per MMBtu and the 2012 average at \$4.30 per MMBtu. The 2012 forecast is significantly lower than the previous quarterly report where the price was expected to jump to \$4.65 per MMBtu. Drilling rigs for natural gas has actually bounced back since the last report and production is

expected to be up 6.4% over 2010 levels. It is expected that 2011 consumption will be up approximately 2% over 2010 levels. The forecasted level for 2012 consumption is relatively flat at a 0.8% growth rate.

**Cotton** – In our last update, Cotton prices had dropped from all time highs of 245 cents/lb to levels under 165 cents/lb. Recent trading in both NY futures and the A index have dropped below 100 cent/lb - closer to the 10 year average of 70 cents/lb. Questions related to mill demand remain central to the discussion of future price direction. While purchases for the Chinese reserve program should keep prices from falling significantly, prices are not likely to advance given the weak state of the world economy and potential damage to cotton's market share due to last crop year's high prices. The wild swings in cotton prices are a reminder to buyers of the increased risks when speculators play in commodity markets. Historical trends and fundamentals eventually rule the day.

**Currencies** – While many have complained about the weak U. S. dollar over the past few years, the truth is that it has helped to fuel a strong export market. These strong exports have been one of the few bright spots in our economy in recent times. The greenback has been on a tear lately, jumping more than 6% in the past four weeks to reach its highest level since January against a trade-weighted basket of currencies. The rising currency can be a head wind for economic growth and a drag on corporate earnings. The hope is that a stronger dollar could help kick start a new uptrend in the US stock market.

	<u>9/26/11 Rate/US\$</u>	<u>3 Month chg</u>
<b>Brazil</b> real	1.82141	+12.43%
<b>Canada</b> dollar	1.02881	+4.32%
<b>México</b> peso	13.4901	+12.16%
<b>Euro area</b> euro	0.740742	+1.485%
<b>UK</b> pound	0.644158	+4.64%
<b>China</b> yuan	6.40133	-2.62%
<b>India</b> rupee	49.4474	+9.91%
<b>Japan</b> yen	76.3333	-8.10%

For buyers, a stronger dollar makes imports less expensive – know the numbers and use them to your advantage.

## ***ECONOMIC NEWS***

The U. S. economy grew only slightly at 1% in the second quarter as consumer spending weakened. A slow down in exports and a smaller build up of inventories highlighted a weaker recovery. There have been some recent gains however, as spending rose in July. We are getting some relief at the pump so the hope is that a drop in gas prices could put a charge in spending for other goods. Retail sales grew in July with autos, electronics, furniture, apparel, and appliances all reporting gains. The current economic outlook calls GDP growth slipping under 2% in '11 and about the same in '12.

**Home Sales** – Both new home sales and existing home sales fell in July by 0.7% and 3.5% respectively. July marked the third straight month of decline in new home sales. Homebuilders have a large inventory of unsold homes which continues to push down prices and stall new construction. Existing home sales fell in July to the lowest level of the year. Prices fell yet again and are now 4.4% lower than they were a year ago. Housing is a great buy right now, but with a stalling economy, an uncertain stock market, and unemployment, potential buyers are in wait and see mode.

**Unemployment** – September figures continue to point to a very difficult job market. Higher unemployment benefit applications certainly suggest that companies continue to lay off workers as the economy weakens. In our home town of Charlotte NC, Bank of America Corp recently announced that they are cutting 30,000 jobs nationwide. Economists are predicting economic growth of no more than 2% in 2011 which will barely support the population growth. And that number is well below the 5% mark that most think will be needed to positively impact employment numbers.

**The Gold Bubble** – After a record run up of gold prices over the past several months the “bubble” appears to be deflating. As of this writing gold has taken a downward turn as investors are becoming more concerned with the financial unrest in Europe as well as the prospect for another global economic downturn. This is good news for the U. S. dollar as investors are returning to more traditional safe havens.

## ***UNITED SOURCING ALLIANCE family of Companies***

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**Transportation Insight** has been recognized for the fourth year in a row in Inc. Magazine’s 2011 Annual Exclusive List of America’s Fastest Growing Private Companies.

Transportation Insight is among an elite Inc. 5000 alumni group of companies experiencing significant and continuous expansion in years 10 and beyond of doing business. Appearing in the publication’s fifth annual edition of the Inc. 500/5000, Transportation Insight has been recognized for outstanding sales growth—a 43% increase since 2008.

Referring to the logistics industry as one of the country’s main economic engines, Inc. Magazine ranked Transportation Insight as one of America’s top 100 leading entrepreneurs in their industry list of Logistics and Transportation based on gross dollar growth. Transportation Insight joins other prominent brands featured in the Inc. 500/5000 list such as Dunkin Donuts, Honest Tea, Spirit Airlines, Metrokane and television maker Vizio.

Founded in 1998, Transportation Insight, LLC, helps manufacturers, retailers and distributors improve profitability and competitive advantage by providing world-class supply chain solutions. Transportation Insight’s core competencies include co-managed logistics, financial settlement, technology and business insight. The firm’s goal is to lower clients’ logistics costs, automate business processes with state-of-the-art transportation management system (TMS) applications, provide enterprise-wide business intelligence and enhance customer service. Please contact us to learn more.

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**Total Insight – Lean solutions** help organizations establish their internal culture to begin the journey to sustainable, long-term improvements. Total Insight's LEAN solutions provide:

- Hands-on value stream mapping combined with kaizen techniques to support a rapid improvement process.
- Performance coaching led by a trained Sensei to guide your organization and develop strong execution ability.
- Graduated levels of workshops to strengthen and solidify improved practices which make Lean solutions second nature over the course of the journey.

Eric Lail, Vice President of Lean Solutions, has been trained by Toyota and Shingijutsu, has helped companies such as: HON, Hickory Chair, Lance, Kohler, Sara Lee, W.P. Hickman, and more. Eric has also conducted over 400 kaizen events in dozens of companies throughout North America. Visit their website at <http://www.totalinsight.com/default/index.cfm/events/> to see the schedule of upcoming Lean workshops and certification classes.

## ***SOURCING OPERATIONS UPDATES***

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**Waste Management** - We are pleased to announce a new agreement signed with Waste Consultants, Inc a national leader of waste and recycling expense reduction services. This company will work with you on a risk free, results oriented basis. Waste Consultants can provide hands on, on-site service throughout the US, Canada, and Puerto Rico. Waste Consultants Inc has been successful in capturing savings on over 90% of the clients they have worked with. Be sure to check out their website at [www.wasteconsultantsinc.net](http://www.wasteconsultantsinc.net) and contact us to learn more.

**Packaging Solutions** – In our efforts to continue and expand our packaging supplier network we have signed a new contract with The Ruskin Group. The Ruskin Group has three divisions offering the widest range of products and services in the industry. They have in excess of 10,000 stock packaging and shipping supplies available for same day shipment. They also specialized in customized packaging solutions for industrial, retail, and consumer markets. Visit their website at [www.ruskingroup.com](http://www.ruskingroup.com) and contact us to learn more.

### **In closing...**

Clearly we are in very challenging economic times and the outlook has diminished from earlier in the year. Pervasive high unemployment will likely be a drag on our economy for years to come. In this uncertain environment, interest in our services has increased as every detail and every cost savings opportunity matters. We're excited about the two new suppliers and one new category we've added over the past quarter. We now have 17 categories in which we can help clients – how many of those are you using? Call on us, and ask for help getting the next one in place. We appreciate your ongoing support and ideas as we remain committed to excellence in support of our clients.

Respectfully....*United Sourcing Alliance*