

Worldwide Risks To Intensify in the Restructuring Era



「大重組」時代 全球性風險衝擊將更加劇烈

The past two years saw unceasing eruption of global market turbulence. Highly frequent market restructuring is already the new normal for enterprises. Restructuring happened once in the U.S.-China trade war, and again in the pandemic, and yet again at the crossfire between Ukraine and Russia. The risks on cost have become greater and ever more unpredictable for businesses. **We are going to start from the perspectives of hand tool, component and fastener industries and look at the trends of the manufacturing industry in the restructuring era.**



**POSITIVE OUTLOOK FOR HAND TOOL MARKET;
Caution Required to Cope with Sudden Global Crisis**

Hand Tool Export Increases with Orders Filling up H1 Order Book

A market research company's report shows the world's hand tool market value was USD 8.4 billion in 2021 and that it will increase 22% to USD 10.3 billion in the next 5 years. On the other hand, the world's electric tool market value was USD 34.3 billion in 2021 and that it will increase 31.7% to USD 45.2 billion by 2026. **This is a clear sign that global hand tool market demand after the pandemic outbreak is just going to grow stronger.**

Among all the countries, Taiwan is one of the top 5 hand tool exporters. The export value of Taiwan's hand tools dropped as a result of the trade war and COVID-19 several years ago, but immediately picked up by 27.4% and landed at USD 4.79 billion in 2021 as the world economy warmed up and metal prices went up. The largest export destination for Taiwan's hand tools is the U.S. with a recovering economy and enormous investment in infrastructure over the last two years that led to a 26.9% growth in Taiwan's hand tool export to the U.S. The second largest destination is EU with a share growth of 33.3%. The U.S. and Europe altogether take up over 60% of Taiwan's exported hand tools. Taiwanese hand tool companies like Basso Industry Corp. have had its purchase orders piling up to the end of Q2.

Coexisting with COVID, Vietnam Now in Rebound Becomes the New Hot Spot for Automotive and Electric Tools

With Southeast Asian countries loosening border restrictions, the market expects the region's purchase orders to explode in number and local transport to become vibrant. Among those countries, Vietnam's trade volume this March increased 36.8% to

a total of USD 66.73 billion. The country exported a value of USD 34.06 billion, up 45.5% and imported USD 32.67 billion, up 28.7%. The freights for several marine lines headed for Vietnam has increased over 50%, showing a burst in the country's momentum for trade flow and market demand.

Since two years ago, automotive component as well as electric tool companies have taken the opportunity to invest in Vietnam during market recession. Now they are seeing their investments slowly taking effect. A component company said there was a client redirecting orders to its Vietnam plant and this boosted its revenues to significantly increase this year and grow 20% next year. In the current global political status, Vietnam has become the go-to springboard for enterprises to exit from China. The American EV makers have also redirected orders to Vietnam and brought opportunities to local component plants. Furthermore, in recent years Vietnam has been active in developing the automotive industry and increasing localization rate. The demand for medium and large automotive components is expected to grow and it will drive the demand for components and tools. Clearly, as major electric hand tool and automotive companies redirect orders to Vietnam, local tool, component and fastener purchase will increase, and Vietnam will become a new hot spot after COVID outbreak.

When Russia-Ukraine War Throws a Wrench Into the World Market

Despite the outlook for a growing hand tool demand, the abrupt Russia-Ukraine war skyrockets the costs for raw materials and transport. Also, Fed's lifting interest rates is resulting in a decelerated orders placement. The hand tool industry will have to be deliberate about the second half year.

Take Taiwan for example, the country has about 235 companies exporting hand tools and hardware parts to Ukraine. The exported products include machines and automotive components, wrenches and spanners, hand tools, iron and steel screws, bolt and nuts. After the war outbreak, already there are Taiwanese companies encountering problems in collecting payments or unable to reach Ukrainian and Russian contacts. Currently Russia has been scratched off from the SWIFT system. The three largest marine container transport companies has paused Russia marine lines and China is now the third-party medium for cargoes' entry into Russia.

Besides the aftermath of the war, a more globally impacting issue is that the war accelerates the Fed's decision to raise the interest rate. **If the Central Banks in various countries follow suit, it will increase enterprises' operating costs and reduce their profits, leading to higher corporate credibility risks.**



MATERIAL SHORTAGE AND SHANGHAI'S LOCKDOWN, Top Two Concerns for Fastener and Component Industries This Year

An article from MetalMiner indicates that the global stainless steel shortage won't alleviate for the time being and that this will be a long and painful process. The website gave an example that an American fastener manufacturer said its collaborative wire rod supplier ceased supplying 430 CHQ wire rods. The website pointed out that steel supply problems improved at the end of last year but that demand remains large. Customers are in queue for steel rationing and shipping steel requires to wait for 4 to 6 months. Furthermore, nickel is an important material for stainless steel. The war has spiked nickel price which drives up stainless steel price; therefore, the stainless steel price will drop slower than when it increased last year.

Besides material shortage, the lockdown in Shanghai since this March has been further worsening the shortage. After Shanghai, Kunshan and some other cities announced a lockdown and it worsened to the extent that it created problems in the Apple supply chain in Chengdu. A Chinese fastener company said that the Chinese fastener market is very short of fastener and that they are desperately scrambling for materials.

As for Taiwan, the lockdown in China is a big impact on Taiwan's fastener industry. The war leads to a surge in wire rod price and production cost that leaves Taiwanese fastener companies with flatlined order placement and they are giving up their hopes. Now with the lockdown in China, there is an impact on the capacity and supply of several Taiwanese businesses with branches in China. According to sources, a Taiwanese fastener company took early actions to redeploy capacity in China and Taiwan, largely increasing the capacity of its Taiwan headquarters via plant expansion to make it a primary production output. That is the reason it can maintain normal operation when its capacity in China is cut off. **To sustain business, Taiwanese fastener companies are turning conservative and deliberate about investment and order handling this year.**

The impact of Shanghai's lockdown has made its way to the automotive supply chain as well. A car uses tens of thousands of components and lacking any one of them could lead to a temporary production halt. Almost every car brand in the world uses China-made automotive components, so tightening China's production will cast a full-spectrum impact on the global automotive industry, and the ones that take the brunt are Taiwan, Japan and South Korea. Take Taiwan for instance, components from across China converging at Shanghai harbor cannot be exported, and it means no import source of components for Taiwanese carmakers and they are forced to reduce or stop production. As to Japan, problems



in component supply caused Mitsubishi, Mazda and Daihatsu to announce a temporary production halt. Honda announced to cut production by 30%, and Nissan even put off launching sales of an EV model. As far as the U.S., the most typical case is Tesla with its Shanghai plant forced to halt production for over 3 weeks and losing over 40 thousand units of EVs that it could have produced, but Musk keeps his estimated capacity at 1.5 million for this year.

Research institute S&P Global Mobility estimates that the global light vehicle production will be 2.6 million vehicle less both in this year and next year which aggregates to a total of over 5 million vehicle less. The total estimated production for this year is 81.6 million vehicles and 88.5 million vehicles for next year. In a worst-case scenario, the two years' production could drop by as many as 4 million vehicles. MarketsAndMarkets predicts EV sales will reach 8.15 million vehicles this year and 39.2 million vehicles by 2030, up 3.8 times. Obviously, EV purchase will continue to go up despite the supply chain disruption that affects EV production.

It is worth the attention that ever since the world begins to coexist with the virus, order placement to Boeing and Airbus has recovered to the pre-pandemic level and production is slowly growing back. This will put the aerospace component industry back into a recovery phase, and aerospace fastener and component companies should closely monitor this trend.

The Lifeline in RESTRUCTURING

In a time of coexistence with the virus, the Russia-Ukraine war came by surprise and cast an impact greater than the virus. It is the direct cause for a global restructuring of supply chain. Democratic countries side with the supply chain led by the U.S., and the sanctions slay the opposing side to the bones at all costs even if the sanctions are almost as much damaging for both sides. "Restructuring of industry chain" sweeps the manufacturing industry at lightning speed and supply chain disruption is making countries transition to "localized production" and "localized purchase". Companies are doing whatever they can to suppress costs and try to offset astonishing cost growth in logistics. This is a time that calls for higher crisis awareness and external crisis is always much higher than a company's internal operation crisis. Therefore, companies across the world must change the mode of business immediately.

Likewise, Taiwan faces the dilemma of drastic cost increase and crunched profits. Despite the chaos in global supply chain, Taiwan's manufacturing supply chain is barely affected and continues to grow and prosper, and overseas suppliers highly recognize Taiwanese suppliers. This is the biggest competitive edge for Taiwan. In fact, in the opening days of Japan Manufacturing Show this April, many Japanese local visitors told Fastener World that purchase prices in Japan are raised to the extent that they can't dare to purchase some of the Japanese products. Therefore, many Japanese companies urgently need to purchase high quality and relatively low-price products from Taiwan. Taiwan has never stopped supply before and after the pandemic outbreak. Besides purchasing domestic products, global purchasers are welcome to turn to Taiwan with stable and price-competitive product supply. Taiwan can support purchases across the world! ■



No. 43, Ln. 115, Shenlin S. Rd., Daya Dist.,
Taichung City 428, Taiwan
Tel: 886-4-2566 5113 Fax: 886-4-2560 4335
www.heyyo.com.tw E-mail: info@heyyo.com.tw
www.fastener-world.com/en/supplier/heyyo

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Range of Length Processing	2-45mm		
Precision of External Diameter Grinding	0.003mm		
Superficial Roughness	Below Ra0.1		
Competitive Advantages	Less consumption, higher speed, better stability, and more competitive prices		
Monthly Capacity	More than 5 million pcs		


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